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THE FUNDAMENTAL PROBLEM IN MONETARY SCIENCE



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THE FUNDAMENTAL PROBLEM

IN

MONETARY SCIENCE

BY

CORREA MOYLAN WALSH
Author of The Measurement of General Exchange-Value



New York

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AMENTAL PROBLEM IN ETARY SCIENCE

I. INTRODUCTION

CHAPTER I

E OF THE PROBLEM

science, at the present stage of its damental problem is to determine y the quality that constitutes its problems do not stop at the he material of which money is hould be light or heavy, yellow. er it should be divisible, cogniceptable. These are questions the more elementary considerasound currency. Good money nuch deeper, and the determis the most wide-reaching ins a measure of value not only ice, but continuously through is also a store of value over ng so used not only by those by those who part with it The primary quality ttion. ore been almost universally of value. That is the best earest to being stable in)

value. So much a commonplace is this in writings on the subject that it would be idle to cite authorities. With the fewest exceptions, economists have affirmed that what is primarily desired in a monetary system is that the money should be as stable in value as possible. Some even have gone so far as to sav that it is the duty of government to provide such money, if it cannot be obtained naturally. The majority content themselves with saying that selection should be made of the material which of itself is the least variable in value. or are satisfied that this has already been done. fundamental attribute of good money seems, then, to be unanimously decided upon. Unfortunately the little word "value" is ambiguous. And so it has happened that the writers who agree in the words they use have had very different meanings, and the unanimity in regard to the prime quality in good money is only apparent. We are obliged, therefore, to seek further below the surface, and to inquire: What kind of value is it that money measures and stores and should possess in a stable manner? This is the fundamental problem in monetary science. It is a problem in consequence of the differences of meaning which people have attached to the word "value." It has become a problem only since a beginning has been made in the recognition of these differences. It remains to this day a problem because as yet but few persons have consciously distinguished these differences and still fewer have even casually entertained any question concerning them.

§2. There are many meanings of the term "value." The monetary writers of several centuries back distinguished in money—and only in money—between extrinsic and intrinsic value. By "extrinsic value"

they meant the denomination in money of account officially set upon the coins. Some writers have been satisfied if the same denominations be always kept. money then being stable in this kind of value. them a dollar always is a dollar, no matter how its other kinds of value may be altered or fluctuate. Persons who hold such a view occupy the lowest plane among those who pretend to hold any views on monetary matters. and they have rarely, if ever, been influential. Not so the persons who have been impressed by the other of the two primitive kinds of value. The metallic content of coins was called their "intrinsic value." Such intrinsic value has by many writers on the subject, from Copernicus down, been taken to be the kind of value which ought to be kept stable. This merely means that the metallic weight and fineness of money is the invariable quality desired. If this be the true doctrine of money, it should be held through thick and thin to mean that when a metallic system of money has once been established it should be maintained unchanged forever, no matter how much any other of the kinds of value of the metal or metals might vary. It is hardly necessary to state that this doctrine has never yet for long been acted upon, and few of its supporters have really desired that it should be acted upon in all possible cases. some enormous deposits of gold and silver should be discovered, or if the dreams of the alchemists were to be realized, and these metals should begin to fall in value, and give prospect of falling to the level of copper or tin, we should soon see the advocates of permanent intrinsic value clamoring for alteration. Theoretically, therefore, the doctrine is not tenable. It can be maintained only as practically desirable in the ordinary run of events, because of the greater evils that may ensue upon departing from it. And although some economists talk in an extravagant way about its being the ne plus ultra of monetary science, the majority of the most influential ones are more cautious and admit its theoretical shortcomings, and are grieved because money constant in this kind of value does not remain constant in value proper.

This doctrine of constant intrinsic value has been reached also through another equivocal use of words. Money being regarded as a measure, it has been said that, like other measures, it should be fixed and invariable - without defining in what respect it should be fixed and invariable. Then, a coinage system being once established, the inference was immediately drawn that the coins already existing and their denominations should be kept unaltered—in other words, that the monetary unit should always be the same weight of the same metal.* Really this is like saying that the unit of length should always be the same weight of the same material, or that the unit of weight should always be the same volume of the same material.† From the same source has arisen another mistake. The whole

^{*}E. g. "The size [of the coin] having been once fixed upon, it should remain invariable," F. Wayland, The elements of political economy, New York, 1837, p. 243. Cf. also, "The foundation of the science of money must be laid with the concrete of the 'logic of the unit of weight system,'" J. H. Norman, Silver and gold coinage of England since the Conquest to the present time, Journal of the Royal Statistical Society, London, December 1890, p. 686, (The sub-quotation is referred to Leroy-Beaulieu, 1889.)

[†]This position was also reached from the view that the subject of contracts is a specific quantity (by weight or bulk) of a specific substance, so that in the capacity of money as "a subject of contracts for future payment," "the fixity of a standard is most essential." So Tooke, Bistory of prices, Vol. IV., 1848, pp. 145-6.

currency of a country has been taken to be its measure of value. And as the measure of value ought to be kept fixed, it has been concluded that the total quantity of money in a country should be maintained at a fixed figure.* It is hardly necessary to state that such a monetary system would not remain constant in any sense of the word "value."

A wholly illegitimate <u>sense</u>, though one frequently used, catachrestically, for the hire of capital, has been put upon the word "value," in connection with money, in identifying it with the rate of interest or discount. In consequence of this, some persons have thought it of the greatest importance that money should be kept stable in this kind of "value," that is, that monetary and currency regulations should be so framed as to keep constant the rate of discount.† But few have been misled by this absurd delusion. However desirable it

^{*}Even Locke bordered upon this error, in his Considerations of the lowering of interest, Vol. V. of the 1823 edition of his Works, p. 48, cf. pp. 44-5. (Elsewhere, of course, he held the fixed intrinsic value doctrine, as when he says that creditors should receive back "the same value, i. s. the same quantity of silver," ib. p. 87.) An otherwise almost perfect little treatise, An essay on money, London, 1818, by Ch. R. Prinsep, is spoiled by recommending fixation, instead of adaptation, of the quantity of inconvertible paper money, pp. 137-143. Recently in The silver question settled, New York, 1893, R. H. Smith says: "An ideal standard of value requires that the metal which is proposed to be used as such standard should increase up to a certain limit, and after that remain at a certain fixed amount," p. 45.

[†]The arch-priest of this dogma is Edward Kellogg, who hit upon what has since been called the "interconvertible bond" scheme, in 1843. In his New monetary system, 1861, he says: "Anything that exists in perpetuity, is valuable in exact proportion to the income it will yearly bring to its owner. . . . Therefore, to keep its value [of money] uniform, the rate of interest must be kept uniform;" and again: "The measure of value is instituted and made by law; and, consequently, it is fraudulently used when the rate of interest upon it, which determines its value, is altered by individuals," 5th ed., Philadelphia, 1875, pp. 64, 65.

may be, for business purposes, that the rate of discount be constant, this is generally recognized to be a financial end, which perhaps may follow upon a monetary system that is stable in some true kind of value, but which must not be sought at the expense of stability in any true kind of value.

§3. True economic value is, then, the value the stability of which is the quality primarily desired in money. But economic value itself is a value with several varieties or species. At all events, by "value" economists have meant several distinct attributes or qualities in things. They have meant, sometimes, using the word in a popular sense, little more than what is signified by the word utility: and this may be distin-They have meant also the corguished as use-value. relative in things of the esteem in which we hold things - of the affection and attachment we have for things. the energy with which we cling to what we possess, and the effort we are willing to put forth to acquire things: which may be called their esteem-value. They have, again, meant the correlative of the effort or labor which things cost their producers: which may be called their cost-value. They have meant, finally, the purchasing power of one thing over another thing or over things in general: which is properly to be called its exchangevalue.

These kinds of value, differently variable in amount in the same thing, are distinguishable also by the methods by which, roughly or accurately, we measure their amounts. Use-value is a purely physical attribute in things in relation to physical and moral qualities in our bodies and minds. It consists wholly in what a thing can do for us, on the general supposition that we

want something to be done which it can do. It is the same in a given thing no matter how large or small be the species to which it belongs, that is, no matter how many or how few be the other things like it in our possession or within our reach. On the contrary, the esteem-value of a thing is dependent upon the number of other things like it which we possess or may possess. having, in a general way, an inverse relationship to that number. It is greater or smaller according to the desire awakened in us by the utility of the thing in the particular circumstances in which we find ourselves. class of things may be very useful to us, but if we already possess much of it, we may be satisfied and want no more of it, or may even be willing to throw away some of it as superfluous. The want we feel of possessing a thing is not proportionate to its utility alone, but to its utility and rarity; and the esteem in which people hold a class of things, or the esteem-value which they put into it, is a general level of the wants they feel for it. Cost-value is proportionate, not to the amount of labor we should have to expend to produce a thing if we produced it for ourselves, and especially not to the amount of labor we should be willing to expend to produce it were we compelled to rely on our own efforts, but to the amount of labor actually expended upon its production by those who actually do produce it - by "producing" meaning every act up to the handing over of the article to its consumer (or, for practical purposes, to the retail dealer). In the long run cost-value cannot be above esteem-value, because in that case people would cease to produce it: but it can remain indefinitely below esteem-value, the difference accruing to those who own the limited means of production. Thus a thing already produced may command more labor than it cost. And if the cost-value of a thing be measurable, in some way, by an average of the amounts, or by the greatest amount, of labor required to produce it, its esteem-value would seem to be measurable, in some way, by an average of the amounts of labor the thing will command. A thing will command less labor, for instance, if it is produced with less labor, provided it fall in esteem-value, which it will do if in consequence of its more easy production, circumstances permitting, the quantity supplied is greater than formerly in comparison with the demand for it. Thus there is a connection between esteem-value as well as costvalue and the productiveness of labor: but while costvalue depends solely upon the productiveness of labor. or upon the fertility of the sources from which it is supplied, esteem-value depends also upon the prolificness of the sources to which labor may be, and is, Some caution and reserve of language is necessary here, because the ideas of cost-value and esteem-value have not yet been fully expounded. regard to exchange-value there is no such uncertainty. We are certain that the exchange-value of a thing is to be measured somehow by an average of its purchasing powers over other classes of things, which powers are themselves measured by the quantities of the things for which it will exchange.

\$4. That value is not a simple concept has long been recognized. Following in the footsteps of Turgot, who had himself been preceded by Locke, Adam Smith, as is well known, divided value into two kinds, which he called "value in use" and "value in exchange" or "exchangeable value," which he also spoke of as "relative

value:" and he has been followed by almost all economists. In this division of value are left out of account those kinds which have above been first noticed as technical uses of the term in the old monetary science and in the jargon of the "street." Because these two kinds of value have been recognized by most economists, they are here called kinds of "economic value." Yet most economists, beginning with Adam Smith himself, have noticed use-value as a kind of value only to be mentioned and to be set aside. In doing so they have done well, because such value is little else than a popular identification of value with utility, and there is no need in science for two terms expressing the same idea. Adam Smith and his followers are then left with only one economic value, or rather with only one term for the three remaining economic values. They have, in fact, jumbled the three kinds of economic value under the one term "exchange-value," proper only to one of them. Adam Smith did so originally, for the case of esteemvalue, because of a mistaken notion that labor is a commodity interchangeable with material commodities. It is supposed that people exchange labor for goods, and goods for labor. Hence it is conceived that goods have a purchasing power over labor as well as over other goods, and that labor has a purchasing power over goods. Now, the exchange-value, so conceived, of goods in labor is really the esteem-value of the goods; and the exchange-value of labor in goods is the cost-value. not of labor, but of the goods themselves. But, in truth, neither the esteem-value nor the cost-value of goods is exchange-value; for goods are not exchanged for labor, nor labor for goods. An exchange is an interchange between two parties of two objects that can

be transferred from the one to the other, or which can be produced by the one for the other, such as a service. In every exchange, on each side, there must be a receiving as well as a giving or a producing. Labor can only by a stretch of metaphor be said to be given or to be produced: certainly it cannot be said to be received. Only the product of labor can be received, whether it be something material or immaterial. Nor is labor ever purchased, but only the product of labor - except that where slavery exists the performer of labor, the man himself, may be purchased, for the sake of the material or immaterial products of his labor, but not for the sake of his labor itself. Labor, in short, is not an exchangeable object, and cannot have exchange-value. When a free laborer works for money, there is some proportion between his labor, measured by intensity and by time, and the amount of money he gets, which proportion is a different thing from the proportion between the product received by the employer and the money he pays. exchange-value of the money is properly measured by this latter proportion, averaged upon all products, not by the former. When the former proportion, averaged upon all wages (or earnings), is employed to measure the value of money, it is another kind of value of money that is being measured. This is properly the esteem-value of money, for which the idea of cost-value was substituted by Ricardo, without noticing that in cost-value there is not even the possibility of bringing in the idea of exchange-value. Exchange-value is thus obviously distinct from both esteem-value and cost-And to put these two ideas, or either of them, under the term properly designating exchange-value alone, is an error and a confusion of thought generative

of other confusion and of other error. Because of it our problem exists to-day. For because of it economists have not been in a position easily to distinguish what they meant when they said that money ought to be stable in "value," even though they added, with appearance of more definiteness, that it ought to be stable in "exchange-value," since by this term they might mean either exchange-value proper or esteem-value or cost-And this is almost equally true at the present day, notwithstanding that some fifty years ago, in Germany, Roscher divided value into use-value, exchangevalue, and cost-value, and some twenty-five years ago. in England, Jevons divided value into use-value, exchange-value, and esteem-value, thus together giving us the four kinds of value; for such co-ordination of cost-value and of esteem-value alongside of exchangevalue has not yet come into general recognition.

§ 5. The idea of use-value is, of course, to be left out of consideration. We are not concerned whether money remains constant or not in use-value. In fact, money has use-value only in consequence of having exchangevalue, since the only use we make of money as money is to exchange it for the things we really want. Or perhaps even it may be right to assert, with Rau,* that money has not use-value at all, since it is never The question, then, narrows itself to the consumed. three positions, whether money should be stable in exchange-value, or in cost-value, or in esteem-value. Furthermore, we have seen both cost-value and esteemvalue to be connected with labor. On this account these two concepts have been little distinguished from Together they have often been treated as each other.

^{*} Volkswirthschaftslehre, §§64, 265.

a sort of value that is measured somehow by what has been called the labor standard, over against a kind of value that is measured by what has been called the commodity standard. The former has been, in a vague sort of way, called labor-value, and over against this the latter, which is exchange-value proper, has been called commodity-value, especially when the values of money have been dealt with, money being contrasted either with labor or with commodities. The question is thus still further parrowed in appearance, though not at bottom. And in this way of vaguely contrasting only two kinds of value we also may be permitted at times to treat our subject. If any one decides that money ought to be stable in exchange-value, by means of the commodity standard, he has little need, for the purpose before us, to distinguish further between the two kinds of labor-value. But if any one decides that stability of the value of money is to be judged by the labor standard, he should feel it incumbent upon him to elaborate this standard by distinguishing between the ways it is to be applied, and to decide further between stability in cost-value and stability in esteemvalue. At the beginning, therefore, the problem may be regarded as principally a two-faced one: Ought money to be stable in commodity-value, or exchangevalue, or ought it to be stable in labor-value, whether this be cost-value or esteem-value? only in this double aspect that the question has as yet been treated, although by some persons it is cost-value, and by others it is esteem-value, that has been contrasted with exchange-value. Stability in exchangevalue is always one side of the question; and yet even the idea of exchange-value itself has not often been

strictly conceived. Thus there is confusion on both sides of the question, and on both sides there is need of clarification. But for the present we may content ourselves with clearly understanding that the question is at least two-sided.

CHAPTER II

HISTORY OF THE PROBLEM

- \$1. In the first half of the nineteenth century, and especially in the second quarter, when prices were falling because of greater extension in the production of commodities than in the production of the money material, there was a discussion of the question as to what is the nature of "value." or "real value." and as to how such "value" is to be measured. This discussion had a bearing, as we shall see, upon our own question as to what kind of value it is in which money ought to be stable; yet it was not directly concerned with our question. Our question began to be discussed in the last quarter of the nineteenth century, after another fall of prices had set in. During this recent period the problem has been several times posed and debated, though never very carefully investigated. It has always been touched upon in the double aspect we have just described.
- §2. Perhaps the first notice of our problem was made by the British Gold and Silver Commissioners, in their Third Report, rendered in 1888. Amongst these commissioners a difference of opinion on the subject came to light. The six commissioners who upheld the single

gold standard* stated that "There are judged some who think that in an ideally perfect system of currency. whatever may have been the cause of an alteration in the relation of the standard to commodities, the standard ought to adjust itself to this variation, so that prices should remain constant;" and they expressed their own opinion when they proceeded to say: "It may be questioned whether the strict idea would not require that the constancy of obligation aimed at should be to render the same labor rather than to transfer the same commodities, so that the sacrifice of toil in repaying an obligation should be the same as that which was involved in its creation" (Part II. § 21). Their own opinion was stated also in this way: "It is of the essence of a good standard that it should be as stable as possible, and should not in itself be subject to causes affecting its relation to commodities" (§ 72). Their idea was that the relation between the standard and commodities may change, as happens when prices in general rise or fall, but if this change be due to causes primarily affecting the commodities, it is the commodities that are changing, and not the standard, which is still a stable one. Evidently it is a stable one only in relation to something else than commodities, viz. in relation to labor, that is, it is stable either in its cost-value or in its esteem-value. The very fact that it changes in its relation to commodities means that it is changing in its exchange-value in commodities, and as there is no exchange-value except in commodities, it is changing simply in its exchange-value. Of course the terms "appreciation" and "depreciation"

^{*}Herschell, C. W. Fremantle, J. Lubbock, T. H. Farrer, J. W. Birch, L. H. Courtney.

contain the same ambiguities as the term "value," and the gold-standard Commissioners were perfectly justified in using them as referring to changes in the cost-value or esteem-value of gold and silver and other commodi-That they used the terms in this sense is apparent from their inquiry as to whether the fall of prices was due to an appreciation of gold or to a depreciation of commodities or to a combination of both these causes (cf. §§ 19, 49). For if "appreciation" and "depreciation" be used in the sense of changes in exchangevalue, in the fall of prices admitted they had ipso facto an appreciation of gold to the inverse of the fall of the general level of prices, but not such a depreciation of commodities, since by a rise of gold alone all other commodities together are depressed in exchange-value only to an infinitesimal extent.* Their opponents. unfortunately, the six bimetallists,† did not altogether see their way clearly, although they maintained the position ascribed to them by the monometallists: for. instead of rejecting the method of solving the question entered upon by the latter, they merely objected to the possibility of deciding whether the causes of the changed relation between gold and commodities lay principally on the side of gold (Part III. § 11). Both sides failed to see that they were using words in different senses, and that they were not equipped with sufficient nomenclature to reach a clear decision. Yet they made progress in striking out a notice of the distinction between the kinds of stability in value desired in the monetary standard.



^{*}Or as money is not admitted into the commodity standard, there is no depreciation of commodities, however much their prices may fall.

[†]L. Mallet, A. J. Balfour, H. Chaplin, D. Barbour, W. H. Houldsworth, S. Montagu.

One of the gold-standard Commissioners. Mr. Courtney, a little later, in an article in the Nineteenth Century, April 1893, entitled Bimetallism Once More, published his conversion to bimetallism. he retained his former conception of the desideratum in the standard. The idea that for our "standard of value" "we should choose some substance such that a given weight should always be exchangeable for. as nearly as possible, the same bundle of mixed commodities." he pronounced to be "the common answer" most likely to be first given (p. 621). This he rejected, and retained the conception of the standard previously adopted, expressing it now in these words: "We may aim not at a re-delivery of article by article, but at a repayment of labor by labor, or of sacrifice by sacrifice: and if this be our aim, a standard should be something which, as far as possible, involves the same labor, and the same sacrifice in obtaining it" (p. 622). reason for desiring an increase in metallic currency by opening the mints to silver was based, not on the mere fall of prices, but on the ground that the fall of prices had gone further than could be accounted for by the supposition of gold being stable in cost and in value (i. e. in cost-value). At the same time he disapproved of the single silver standard, because, while silver had remained nearly stable in comparison with the average of commodities, it had fallen with them in cost. Therefore he concluded that "the ideal standard of recent vears should have been a compound of the two metals" (p. 627).

§3. Meantime the problem had been broached in this country, likewise in connection with the bimetallic controversy. In the Annals of the American Academy

of Political and Social Science, for November 1892, appeared an article by Edward A. Ross on The Standard of Deferred Payments. Professor Ross here assumed the position that as all "agree that economic justice consists in the exchange of equal values, it follows that the controversy finally hinges on the nature of value" (pp. 41-42)."The bimetallist asserts." he continued. "that equal quantities of goods are of equal value. though separated by a period of time. The monometallist holds that equal quantities of labor are of equal value, though separated by a period of time." And he viewed the issue as "joined between the two great opposing theories of value—that of labor-value and that of use-value" (p. 42). This way of stating the question is hardly the right way, although it is in accordance with the way the question has generally been treated. It has generally been admitted that there are two or more contending conceptions and theories of value, and the question has been considered to be as to which of these is the right conception and theory of The admission rather should be that the several different conceptions of value constitute several different kinds of value, and that the question before us concerning the stability of money in "value" is a question merely as to which of these kinds of value is the one here applicable. As for the theories of value, these are mostly found to be at bottom theories attempting to explain why at any given time and place commodities exchange for one another in certain amounts, that is, why their exchange-values are such as they are. One theory asserts that two things exchange for each other because they are produced by the same quantity of labor, some modification and definition of the labor

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referred to being necessary to fit this theory to facts. Another theory asserts that they exchange for each other because they contain the same quantity of utility. some modification and definition of the utility referred to being here also necessary. Such theories have nothing to do with the question before us. It may be added that what Professor Ross calls the conception of "use-value" is nothing else than the conception of exchange-value, and that if a constant exchange-value can be shown to be a constant use-value in some sense of the term "use" or "utility," this does not alter its nature. In continuation, Professor Ross urged against the labor standard the very strong argument that when there is improved production the quality of labor changes, so that the same quantity of labor repaid under this standard is not the same quantity of the same labor: wherefore this standard belies itself (p. 45). Against the commodity standard he made no argument, and inclined to accept it, yet deflected slightly from it by admitting that creditors should be enabled to keep up the same social position, which may require that they be repaid in a money slightly appreciating in exchange-value. This he called a standard of "objective utility" (p. 49). It has the defect that it is not a stable standard of any kind of value, so that he virtually ended with the assertion that money ought not to be stable in value, and thereby denied the prime point of agreement. He asserted, however, that his standard approaches nearer to the commodity standard than to the labor standard.

This paper was soon afterwards criticized in the same Annals, for January 1893, by Lucius S. Merriam in a paper entitled The Theory of Final Utility in its

Relation to Money and the Standard of Deferred Payments. Dr. Merriam, accepting the theory of value maintained by the Austrian School, that is, holding that the relative values of things are determined by their relative final utilities, considered that also in the course of time equality of final utility constitutes equality of value in the same article compared with itself. words, he identified value itself, as a quantity, with final utility (p. 101), and could not entertain the thought of value being anything else than this, or of there being any other kind of value. It is curious to see him rejecting the commodity standard on the ground that "it involves a false theory of value" (p. 102). For, as a matter of fact, the commodity standard does not involve any "theory of value." Theories of value, to repeat. are attempts at explaining exchange-values as they occur. The theory, or position, that money should be stable in exchange-value, or that the proper standard for deferred payments is the commodity standard, is wholly independent of any theory attempting to find the cause of exchange-values, and cannot involve any such theory in itself, whether it be the right one or a wrong one. The Austrian theory of value, so far as it explains exchange-values by final utilities, may be the true theory of value; but when it is carried on as a theory pretending to assert that value itself is wholly and solely final utility, it is itself a false theory. may be, in this wider way, the true theory of esteemvalue; but it is not, in this way, a true theory of value. since it is not applicable to all the kinds of value. a theory of esteem-value, it may fall under the vague conception of "labor-value." Dr. Merriam himself found it necessary to devote some space to distinguish

his "value" from what he called "the old labor theory of value," meaning what is here called "cost-value" (pp. 102-103).

Replying in the Annals for November 1893, in an article entitled Total Utility Standard of Deferred Payments, Professor Ross modified his position somewhat, and now stated his standard to be one of "total utility," and substantially identical with the standard he had before adopted. In this new turn given to the dispute we may view both Professor Ross and Dr. Merriam as groping after the true conception of the same thing—after the true conception of stability in esteem-value. We are, then, not concerned with the result of their dispute (although, in this aspect, the advantage would seem to lie with Dr. Merriam), unless it be first decided that money ought to be stable in esteem-value.*

§4. The same may be said of an able article on The Gold Standard in Recent Theory, in the Political Science Quarterly for September 1895, by John B. Clark, the main position in which he had foreshadowed in an article on The Ultimate Standard of Value, in the Yale Review for November 1892. In the earlier treatise Professor Clark had found the measure of "value" to lie at the point where effective utility and effective sacrifice meet. In the later he used this to introduce a compromise between the cost standard and the commodity standard. The doctrine that the unit of value is a definite amount of labor measured by time, say an hour's labor, or a day's labor consisting of a fixed number of hours, he would transform into a doctrine

^{*}Except, of course, that it may be necessary to reach some tolerably definite conception of esteem-value before it can be decided whether money should be stable in this or in some other kind of value.

that the unit of value is a day's labor, or "an unvarying fraction of an average day of labor," on the supposition that with increasing production people normally shorten their day's labor. According to Professor Clark, a debt contracted many years ago when the day's labor was customarily of twelve hours should now be repaid neither with the same average of commodities. which may now perhaps be produced in the same number of days with eight hours of daily work, nor with the product of the same number of hours of work (which may perhaps be fifty per cent. more average commodity), but with the product of the same number of days' work, the day's work being now customarily of ten hours (and its product being perhaps twenty-five per cent. more average commodity). He sums up his position by saying: "In general, the ideal unit of deferred payments is one that, as the productive power of labor increases, represents more and more commodities and fewer and fewer hours of labor." but the same number of average days of labor (p. 399). is a modification of the doctrine that money ought to be stable in cost-value, which transmutes it into a doctrine that money ought to be stable in esteem-value. and it is a further attempt at finding the measure of esteem-value through the course of time. Whatever success Professor Clark may claim in developing the measure of this kind of value, he gives us no argument to show that money ought to be stable in this kind of value: for he merely made at the outset the assumption that "the ideally right" sort of money is one which "will divide equally between debtor and creditor the gains that come through industrial progress" (p. 398), which is really one of the questions at

- issue.* Professor Clark's conception of the measure of this kind of value, however great its merits, has not been widely accepted, and the conception of stability in esteem-value may still be said to be unsettled, so that there remains in economics an important problem to define and determine this conception. But every economist should bear in mind that the problem of determining what is stability of esteem-value is one thing, and that another is the problem of deciding whether money ought to be stable in esteem-value or in some other kind of value.†
- § 5. At about the same time with these writings the problem was also noticed by J. Cummings in a paper on *Monetary Standards*, in the Journal of Political Economy, Chicago, June 1894. Dr. Cummings pointed out two conceptions of the standard of value, as (1) one

^{*}It may also be doubted whether in practice this standard would divide the gains equally. It would seem, like Merriam's, to benefit the creditor more than the debtor.

[†] Very curiously Clark himself inclines to attach much importance to the conception of exchange-value. At the commencement of this article, and in another, Free coinage and prosperity, in the same Quarterly for June 1896, he took up the position that what is desirable in money is not so much constancy in purchasing power as steadiness or uniformity in its change in purchasing power (i. s. exchange-value), whether toward appreciation or toward depreciation, holding that a change in the rate of interest may "correct" the steady variation in the purchasing power, and so put the relation between creditor and debtor in the same position as they would have been in with " a currency of a perfectly stable value" (the meaning of "value" here always being purchasing power or exchange-value). Thus, after all, stability in exchange-value, and not stability according to his own measure of "value," is the norm. (Or if Clark was throughout this paper supposing the economic conditions to be stationary, so that exchange-value and esteemvalue would coincide, his permission of steady appreciation or depreciation, both in exchange-value and in esteem-value, is a denial of the need of money being an accurate measure and standard of value, and so no longer concerns us.)

which varies with the average cost of producing commodities, and (2) one which does not so vary. Yet he conceived of the former as being, nowadays, a "declining standard," which "allows prices to remain fixed as the productiveness of industry increases," while he considered the latter to be the "absolutely fixed standard." which "permits prices to fall under such conditions" (pp. 354-5). It is evident that he uses "value" in the sense of cost-value, and his only conception of stability of value is stability of cost-value. In another passage he uses "appreciation of gold" in the sense of growing dearer in cost-value, although he was combating people who meant by it growing dearer in exchange-value (pp. 364-5). It is somewhat strange, then, that with only one conception of "value" he should entertain two conceptions of the "standard of value."

A little later the distinction between the commodity and labor standards was again pointed out by Henry Farouhar in a paper entitled A Stable Monetary Standard. published in the New York Reform Club's "Sound Currency" of July 1, 1895 (p. 6). Rather curiously, after stating the incontestability of the doctrine that "stability in value is the essential requisite of the monetary standard," Mr. Farquhar proceeds to ask "what shall constitute stability?" (p. 3), thus placing the trouble in the definite idea of "stability" instead of finding it in the vague idea of "value." He defines stability as "ability to resist disturbing forces," and so would seem to get a bias in favor of stability in cost-value. This. however, is not the case. He rejects both the two standards suggested. He rejects the commodity standard because, misinterpreting Professor Ross, he conceives that "it substitutes use-value for exchange-value.

where the latter is manifestly the thing sought" (p. 7). It is true, to repeat, that the commodity standard may, or may not, involve stability in use-value, but this does not show that it excludes stability in exchange-value. Stability in exchange-value is precisely what the commodity standard does provide, so that if Mr. Farquhar could be kept to the last statement, he would have to accept the commodity standard alone. The labor standard he rejects for the reason already given by Professor Ross, from whom he acknowledges obtaining it. Rejecting both these standards separately. Mr. Farquhar accepts both of them together, in a sort of composite standard, and wants wages to be "admitted on equal terms with prices in making our estimate" (ib.), and considers "the best standard of value" to be "one whose changes were intermediate between those of wages and those of prices" (p. 13). We may add, for definiteness, that because of this use of wages, this composite standard is a mixture, not of exchange-value and cost-value, but of exchange-value and esteemvalue. And it would seem to be condemned at the outset by the fact that it is not a standard of any one kind of value.

In December of the same year, at Indianapolis, the American Economic Association, at their Eighth Annual Meeting, the Report of which was published as a Supplement to Economic Studies, Vol. I. No. 1, April 1896, debated the question whether it is necessary that the general level of prices should be stable (i.e. that money should be stable in exchange-value), to which the only alternative advanced was the opinion that all is well so long as prices do not fall enough to overbalance improvements in production and increase of output (i.e.

so long as money does not fall in cost-value or esteemvalue). Two members advocated this position, against six for the other.*

Again in the Annals of the American Academy of Political and Social Science, for March 1896, the problem was attacked by J. Allen Smith in an article entitled The Multiple Money Standard. Here, under the caption of "Two Conceptions of a Standard of Value." Professor Smith states that "The gold monometallists stand for one conception of a standard: the bimetallists and paper money advocates for another. The former tell us that the ideal standard is one which represents the product of a constant quantity of labor; the latter say that it is a constant quantity of commodity" (p. 9). As his title implies, Professor Smith entirely accepts the latter position, and so is an advocate of stability of money in exchange-value; and the greater part of his paper is devoted to working out and defending a plan by which such money may be secured.

Lastly, the question was noticed by F. Y. Edgeworth in an article on *Index Numbers* in the second volume of Palgrave's Dictionary of Political Economy, London, 1896. Professor Edgeworth remarks that for the purpose of serving as a standard of deferred payments "two methods present themselves, viz. to arrange that the debtor shall pay, the creditor receive, either (1) the same quantity of goods and services, the same amount of utility, so to speak; or (2) the product of the same quantity of labor, or more exactly, effort and sacrifice"



^{*}The two were F. W. Taussig (pp. 68, 80 of the Report) and W. A. Scott (p. 83); the six, W. Fisher (pp. 63, 71-2), S. Sherwood (p. 86), J. H. Gray (pp. 88-9), E. A. Ross (pp. 64-5, 91-2), H. H. Powers (pp. 72-3), and A. J. Warner (pp. 70-1, 95).

(p. 385). "The former," he says, "has been more generally accepted;" and he particularly notes the fact that it was adopted by the British Association's Committee appointed in 1886 for investigating the best methods of ascertaining and measuring variations in the "value" of the monetary standard, as being par excellence the measure in question. He himself adds that there are weighty considerations for the latter, but does not further pursue the subject.*

CHAPTER III

IMPORTANCE OF THE PROBLEM

§1. The importance of our problem is well brought out by this review of its brief history. Our problem is one of those theoretical ones which have untold influence in practical applications. It may be that no government will ever avowedly attempt to regulate a system of money with a view to keeping it stable in value of any sort. Yet all governments have almost always, in their decisions about the adoption of a

^{*}The question about these two standards has also been several times discussed in recent works, as by H. J. Davenport and L. Darwin, whose opinions will be noticed later. It has been somewhat lightly treated by F. Fetter in The exploitation of theories of value in the discussion of the standard of deterred payments, in the Publications of the American Academy of Political and Social Science, May 1895, without reaching any satisfactory conclusion. It was also touched upon by R. Mayo-Smith, who withheld judgment, although inclining to the view that money should be a stable standard rather of producing power than of purchasing power, Money and prices, Political Science Quarterly, June 1900, pp. 212, 214; cf. also Prices and individual welfare, in the same Quarterly, March 1900, p. 36.

IMPORTANCE OF THE PROBLEM

monetary system and about alteration of its minor or major details, been influenced by the reigning views about stability of value. And if we view economics as a science, in which a department is the science of money, it is intolerable to think that in its most important technical term, of a concept which plays the same rôle as that of energy or force in physics.* there still exists an ambiguity which leads different minds to mean different things by the same word. An example may illustrate the point. An economist, who was also a legislator, G. Poulett Scrope, once wrote as follows: "When a government sets about the regulation of the monetary system of a country, the very first object for consideration should be the means of rendering its money as invariable in value as possible." † recently a German economist. Dr. Karl Helfferich, has laid down the following proposition: "To prevent, as far as possible, variations in the value of money, and to reduce to the smallest extent unavoidable variations. whether upwards or downwards, is the first task of monetary polity." In these two passages the words

are almost the same, and consequently the ideas seem to be the same. They both inculcate that the monetary policy of government should aim at keeping money

^{*}Cf. "Value is preëminently the economic quality of things, as weight is a physical quality, as the faculty of combining with such or such a body is a chemical property," A. Jourdan, Cours analytique d'économis politique, Paris, 1882, p. 426.

[†]Principles of political economy, London, 1833, p. 404. A few years earlier another Member of Parliament had written: "The first object of legislation upon the money of a country should undoubtedly be to keep its value as invariable as possible," C. C. Western, A letter on the present distress of the country, addressed to his Constituents, Chelmsford, 1829, p. 12.

¹Die Währungsfrage, Stuttgart, 1895, p. 23.

stable in value. This is the most fundamental precept which political economy can give to government for its regulation of the monetary system. And yet, as may be found by examining the context in which these passages occur, they mean entirely different things. It would be impossible for government, during a period of progress, to follow the advice given in almost identical terms by these two economists. If a government followed the advice as intended by Scrope, it would not be following, and could not follow, the advice as intended by Helfferich, and conversely. Or if one government followed the advice of the one, and another government followed the advice of the other, their moneys would not long retain the same value. For by "value" Scrope meant exchange-value,* and Helfferich meant some sort of esteem-value, at least definite enough to be totally distinct from exchange-value, so that a monetary standard which the one would denounce as appreciating, the other might recommend as stable.

Not long ago a Parliamentary Report contained these words: "If it be right that a government should adopt and impose upon its people a legal standard of value, it is clearly its duty to provide, as far as possible, that such standard shall not be wanting in its most essential attribute, viz. that of the greatest attainable stability." The reader may be challenged to tell

^{*}So also Western.

[†]Apparently the same proposition was made also by McCulloch in these words: "It is the duty of government to take care that the value of the currency be as invariable as possible." Note on Money in his double-column edition (1863) of the Wealth of nations, p. 502 b. But the end of the sentence shows that all he meant was that government ought to see to it that paper money should remain of the same value with metallic money—should be invariable in intrinsic value, however much it might vary in other kinds of value.

the meaning of this weighty admonition. He cannot do so unless he discovers where it occurs, who wrote it, and what are the opinions, elsewhere expressed, of its authors.

Economics can never be taken seriously so long as its adepts continue in this way to play with words.*

§2. It would be well, therefore, if economists would pause to devote some time to the investigation of this question. Some aid may be rendered by reviewing the opinions of the great and of the small among past economists, and by pointing out the positions more or less carelessly assumed and more or less tenaciously held by For, although the problem has living economists. only recently been brought to consciousness by a few inquirers, yet from the beginning, in treating of the nature of value, writers on economics have fallen into opposing views. Examination of their tenets will not only disclose the unsatisfactory condition of the science, but also throw some light on the question itself by compelling notice of the reasons assigned. We may begin by surveying in historical order, along different lines, the doctrines of economists during the past three



^{*}As long ago as 1836 Malthus wrote: "It is not a little discreditable to a branch of knowledge which claims to be called a science, that the meaning of a term which is constantly met with in every work on political economy, and constantly heard in every conversation on the subject, should not yet be settled," Principles of political economy, 2d ed., p. 118. But Malthus himself, as we shall see, made the mistake of wishing us to use the generic term "value" in the sense of only one of its species, which is something mankind is not likely ever to be brought to do. He even went further, and wanted the name of one of the species, "exchangeable value," to be used only in the sense of one of the other species, which is something mankind certainly will never be brought to do. How much simpler would it have been, had he advised economists to recognize the different meanings of the generic term "value" and always to specify to which of the species of value they are referring.

or four centuries; and may then systematically analyze and classify the different opinions, the ways of expressing them, and the authorities for them. Finally, some notes may be added about the nature of the question, some hints about the method of solving it, and some arguments for one of the solutions.

PART II. HISTORICAL SURVEY

CHAPTER I

EARLY ECONOMISTS

§1. The search after a better standard of value than current money - after a stable standard whereby to judge the fluctuating monetary standard - may be traced back to the sixteenth century. Then we find complaints about the great rise of prices.* rise of prices was due to two causes, the so-called augmentations of the monetary standards, and the actual depreciation of gold and silver because of their multiplication since the discovery of America. these two causes were distinguished. † fault was found with gold and silver for not keeping their value, because they permitted a rise of the prices not only of luxuries but of necessaries. The reference is evidently to the exchange-value of money. A distinct mention of the commodity standard—at least of the standard of necessaries, -in connection with contracts, is to be found in the great

^{*}In Germany so early as 1541 by Joannes Virdunginus (Regaulensis) in the Introduction to his edition of the monetary tracts of Gabriel Biel, Joannes Aquila, and Bilibaldus Pirckeymhero. In England by Latimer in his sermons of March 8th and 22d, 1549.

[†]By J. Bodin in his Responce aux paradoxes de M. de Malestroict touchant l'enchérissement de toutes les choses et les monnoyes, Paris, 1568. Malestroit, who wrote in 1566, had recognized only the former cause.

work of Grotius, published in 1625 (II, xii, 17). Writing in 1683, Montanari, one of the most profound of the early Italian writers on money, asserted that silver (money) is dear or cheap only in comparison with the things with which it is exchanged, and that as silver measures things, so it is itself measured by things,* And although another standard seems to be used, vet it is really this standard that was ultimately appealed to by Rice Vaughan, when, in 1675, he wrote: "There is only one thing from whence we may certainly track out the prices, and which carries with it a constant resultance of the prices of all other things which are necessary for a man's life: and that is the price of laborers' or servants' wages, especially those of the meaner sort."† Here the variations in wages are taken merely as a convenient means of finding the variations in the general level of the prices of necessaries, so that the level of prices is conceived as the real measure. A little later, in 1691. Sir William Petty, who was one of the early upholders of the doctrine that things exchange for one another according to the comparative labor required to produce them. I asserted that "the day's food of an adult man, at a medium, and not the day's labor, is the common measure of value." || This passage implies

^{*}Vol. I. pp. 90-1, of Custodi's edition.

[†]Discourse of coin and coinage, ch. x. Quoted from Dugald Stewart's Lectures on political economy, Hamilton's edition, Vol. I. p. 364.

[†]Treatise of taxes and contributions, London, 1662, p. 25, calling it "the foundation of equalizing and ballancing of values."

[&]quot;all things ought to be valued by two natural denominations, which is land and labor," and then wanted "a natural par between land and labor," Treatise of taxes, etc., p. 26. In the Political anatomy he reverted to this, and seeking "how to make a par and equation between lands and labor, so as to express the value of anything by either alone," p. 63, he hit upon the above as the solution.

that he would measure variations in the exchange-value of money by the prices—not, like Vaughan, of all the necessaries, but—of the few principal necessaries which constitute food. And at the same time a still more narrowed view was advanced by Locke, who wrote: "Wheat in this part of the world (and that grain, which is the constant general food of any other country) is the fittest measure to judge of the altered value of things, in any long tract of time."* In the use of food alone we have a limitation of the commodity standard from all to only a few things, and in the use of wheat alone we have the final subtilization of it to its disappearance.†

§2. Locke's reason for this subtilization was that in the principal article of food he supposed "there is constantly the same quantity of it in proportion to its yent," there being in this article a "more studied and

^{*} Op. cit. p. 47.

[†]Already under Elizabeth an ordinance had required the colleges of Oxford and Cambridge to make their leases one-third in wheat. This was not an employment of the wheat standard. Wheat can be employed as a standard only by parties neither of whom produce wheat. Such wheat leases were in essence a withdrawal from the use of money and a return to demand for payment in kind. A true use of the wheat standard was, for instance, proposed by Jefferson, in 1783, when he advised paying the Virginia assemblymen daily wages in sums of money representing the average price of two bushels of wheat during the preceding ten years. See Jefferson's Works, Washington edition, Vol. VIII. pp. 444-5, and cf. p. 450. In France the payment of contracts in assignats according to the price of wheat was proposed in 1790 by Jean-Bon-Saint-Andrè (see Thiers, Histoire, Vol. VII. p. 198), and a plan like Jefferson's of paying members of the legislature according to the "value" (=price) of a certain quantity of wheat was actually incorporated in the Constitution of 5 fructidor an III. (1795) art. 68. In Germany a proposal like Jefferson's was extended to all government dealings by Soden in his Nationaloekonomie, Vol. II. pp. 338 ff. (according to Roscher, § 129). And in England, again, the wheat standard was advocated and debated in Parliament in 1822.

designed" proportion of its provision to its consumption. The idea now is that some one thing is more stable in value than other things, and that it is better, as well as more convenient, to use this one thing for the measure of value, than to use all things. is right enough so far as it goes; but it omits to notice that the most accurate test to show that the one thing really does behave in the way supposed is its relation to all other things, so that the multiple standard is the ultimate standard after all. But wheat, or any other food, is so far from behaving in the way supposed that it may be rejected on very little observation. no reliance should be put upon the general principle that over long periods (of "seven or twenty years," in Locke's words) the provision is adapted to the consumption; for, in one sense, the provision of every kind of thing is adapted to its consumption, as there is hardly more waste in one line of industry than in another. In speaking of the provision being adapted to the consumption, or the quantity to the vent. Locke must have meant what is now expressed by the phrase. adaptation of the supply to the demand. But we know very well that even over long periods not only all people in general, but even the lower and "meaner" classes, are differently supplied with food, their demand in one sense remaining the same and in another independently varying. Hence the opinion is worthless that the principal food stuff will be of the same value over long periods; and any such article is unfit to be taken as a good standard of value in any sense of the term "value," although, perhaps, in some sense or senses of this term, such an article may be a better standard than gold and silver have proved themselves.

In the idea that a thing will be stable in "value" if the relation between its supply and demand remains constant, there resides a double meaning, introduced by the double meaning in the word "demand." For the word "demand" means either the offer of other things in exchange for the thing supplied, or the desire for the thing supplied. In the former sense, constancy between the supply and demand of a thing would indeed mean its constancy in exchange-value; but in the latter sense, constancy between the supply and demand of a thing would mean its constancy in esteem-value. the latter case the idea is that the thing is supplied in quantity sufficient to yield a constant amount of satisfaction, thereby awakening in reople a constant amount of esteem for it: whereas in the former case the idea is that the thing is supplied in quantity sufficient to yield an amount of satisfaction which retains a constant proportion to the amounts of satisfaction vielded by the supplies of all things collectively, or on the average. thereby awakening in people an amount of esteem equal to the average amount of esteem awakened in them by all other things. Now, when Locke spoke of the provision of wheat being better adapted to the consumption or vent of it, and so resulting in wheat being a better measure of value than silver, he had in mind on both sides only the quantities of wheat supplied and the quantities of other things offered in exchange for it. He referred only to exchange-value, and wanted for the standard an article stable in exchange-value.*



^{*}Locke divided value into "intrinsic worth" or "intrinsic value" (the same as use-value) and "marketable value" (the same as exchange-value), pp. 42-3. He used "value" generally in this latter sense, as also in this sense the term "price," cf. p. 41. (For "value" as exchange-

Some time later the idea of adaptation of supply to demand in the sense of desire came to the front. This we find in Condillac, who wrote in 1776. Condillac asserted: "A commodity would always have the same value if, always equally necessary, it were at all times and places in the same quantity relatively to the need for it. Then it would be a measure whereby we could appreciate the value of silver [money] through all ages and in all regions. Wheat is this commodity."* Here the standard of "value" has been converted into a standard of esteem-value, although this conversion was not recognized, through lack of recognizing the various senses of the term "value." Two of these senses being in the same year distinguished by Adam Smith,† this

value see p. 40, and cf. pp. 34, 35, especially this: "it [money] has not at all a more stable, settled value, in exchange with other things, than any other commodity has; but a more known one," p. 34; see also pp. 46, 82, 154, 179-80. On p. 30 he speaks of a balancing of money with commodities, and of the "value" of money being lower the higher the prices of commodities, and conversely. But this is given as not his own opinion. On pp. 44-5 he says that, prices varying, the change of values is in the commodities, and not in money, if the quantity of money is constant; but it is in the money if the quantity of money varies. and not in the commodities if their quantities are equable compared with their vent. This is a false theory of the value of money, which makes it difficult for us to determine his real meaning. Money, we should notice, he here treated differently from commodities, its value being made to depend on its own quantity merely, while the value of a commodity is made to depend upon a balancing between its quantity or supply and its vent or the demand for it. But again, on pp. 49, 50, 82, the balancing reappears in the case of money also. - As regards the corn standard. Locke was confusedly followed by Pagnini, Sul valore dell' oro e dell' argento, etc. 1765, in ed. Custodi, p. 302; compare p. 303 with Locke, p. 170.

*Le commerce et le gouvernement, in his Oeuvres complètes, Paris, 1821. Vol. IV. pp. 179-80. He adds that wheat can have this property only if its commerce is unrestricted, pp. 180-1.

†Although his division of value was nothing else than Locke's, under more appropriate terms.

standard was afterwards wrongly taken by Dugald Stewart for a standard of use-value.* Dugald Stewart himself adopted this position, and then as a convenient means of finding variations in the price of corn (whereby to gauge the variations in the value of money) he recommended the use of the "wages of labor." In doing this he followed the example of Rice Vaughan, but with the slight change that while Vaughan thought that wages followed the variations in the prices of all the necessaries together, Stewart thought that they followed the variations principally of the prices of corn, although he, too, added "and the necessaries of life." He noticed also that he was exactly inverting the order adopted by Adam Smith.† It is hardly necessary to point out that wheat, or corn in general, or food of any sort, is no more stable in usevalue than is any other article the use of which is not dependent upon fashion; and that it is by no means stable in esteem-value. I which would be a very unfortunate circumstance, were it so, since one of the blessings of material progress, enlarging room for spiritual increase, is that our daily bread should fall in esteemvalue. It must be noticed that wheat, or corn in general, was thus advanced as a standard of value, not because of itself, but because it was supposed, though mistakenly, to fulfil certain conditions. We shall later find it advanced in the same way for an entirely different condition which it was supposed, likewise mistakenly, to fulfil, and which if it did fulfil, it would be



^{*}Op. cit. p. 362.

 $[\]dagger Op.~cit.$ p. 364. Cf. also pp. 370-1. He here remarks that wages cannot be relied on where they are interfered with by political regulations.

iStewart himself cast it aside on p. 388.

a standard of still another kind of value, namely cost-value. Then it becomes difficult to see on what ground precisely the advocates of the corn standard maintain it, since they generally seem to mix up the conditions for which it was originally recommended, or at least do not distinguish between them.* Others, however, have upheld it because of the inherent virtue in corn to support life and "maintain labor."† And by statisticians the price of wheat has sometimes been used as a help in estimating the value of money, seemingly its exchange-value, during past times, only because of lack of other data.1

§3. Even before the starting of the corn standard upon its checkered career, attention had been casually turned to land, the source of corn and of most of the

†Adam Smith likewise gave origin to this view in some casual passages, pp. 229, 239, which differ from his main doctrine. He was followed here by some semi-socialist writers, e. g. John Taylor, Catechism of the currency, London, 1836, pp. 9, 12, 13, 105, and J. Duncan, The bank charter act, London, 1857, pp. 156, 193.—J. S. Mill treated this as a standard of use-value, Principles of political economy, eighth edition, Vol. II. p. 105.

Or "faute de mieux," H. Bordet, L'or et l'argent, Paris, 1864, p. 27.

The idea that corn is a standard of value because of the stability of the labor-cost of producing it was suggested by Adam Smith, in McCulloch's edition already referred to, p. 86a, although this is slightly different from the real reason which led him to recommend it. Two reasons were also together given, as we shall see, by J. B. Say. After such inauspicious beginning the corn standard has been for more or less inconsistent reasons recommended by F. Horner, Speech of May 6th 1811, Parliamentary Debates, N. Series, Vol. X. pp. 909-10; H. Storch, Cours d'économie politique, Paris, 1823-4, Vol. II. p. 155; J. G. Graham, Corn and currency, London, 1826, pp. 26, 29; L Cibrario, Della economia politica del medio evo, Turin, 1839 (ed. of 1861, Vol. II. pp. 145 ff.); W. Newmarch, in Supplement to the Economist, Feb. 20th 1864, (grain for long periods, the multiple standard for short periods), p. 4; and also, as will be noticed in their places, by G. Garnier, Chevalier, Levasseur, Bowen, Roscher, Jevons, and F. A. Walker.

necessaries of life, as the best standard of value. This was done in 1672 by Pufendorf, who seems to have regarded farm land as always of the same value, asserting that "when a farm is now worth two hundred. which a century ago was worth a hundred, properly not the value of the farm, but of money, has varied."* But no practical use was sought to be made of this idea until John Law recommended land as the best guaranty for paper money, for the reason at least that he thought land less likely to depreciate than the precious metals.† Law was followed for this practical purpose by Franklin, 1 although, as we shall see. Franklin had another standard of value in theory. The rent of land was also conceived by Cantillon to be the best means of determining the abundance or rarity of money in circulation. The price of land has by some later writers been mixed in with the prices of other things.** and even with wages.†† Land as a sole

^{*} De jure naturae et gentium, V. I. 15, 16.

[†] Money and trade considered, Edinburgh, 1705, Chapter VI.

[†] Modest enquiry into the nature and necessity of a paper currency, Philadelphia, 1729, in Spark's ed. Vol. II. pp. 268-70.

[#] Essai sur le commerce, written before 1734, first published in 1755, Harvard ed. pp. 247-9.

^{**} E. g. J. P. Smith would ascertain depreciation of money "by the increase in the rate of prices generally; and more particularly by the increase in the price of arable and pasture land; which, as it is the chief source of production, and is generally of a steady value, is the best test of the value of money," Elements of the science of money, London, 1813, p. 76.

⁺L. A. Garnett, instead of using the prices of the perishable products of capital and labor, would prefer to measure the value of money by the prices of "all the more stable and permanent forms of material wealth," by which he means on the one side both land and "capitalized labor," i.e. all the leading funded securities, and on the other "wage labor" itself, The crux of the money controversy: has gold risenf Forum, Jan. 1895, pp. 584-6.

standard of exchange-value is, of course, condemned by the fact that it is not the only good thing we possess; and as a sole standard of esteem-value, by the fact that it varies in esteem-value with the density of population and the power of deriving utility from it. And as a single item in a list of prices intended to measure variations in the exchange-value of money, it is open to the objection that it varies greatly in quality, every plot of ground being affected not only by improvements upon itself but by improvements in its neighborhood. These reasons explain why the land standard has had so few advocates.

§4. Most of the early writers we have so far noticed treated the subject of the "value" of money in a very casual manner. In the eighteenth century, however, there were many writers who devoted much attention to this subject, either conducting investigations seeking to measure the fluctuations which had occurred in the value of money during past times, especially the depreciation since the discovery of America. or trying to determine how monetary contracts should be paid in the same value at the solution that was expected in the bargaining. And now the peculiarity is found that the "value" had in mind by these numerous eighteenth-century writers shows itself, by the accounts they gave of it and by the methods they used or recommended to measure it, to have been ex-Perhaps the first who conducted an change-value. investigation to estimate what sum of money in his own day had the same value as a given sum of money at an earlier date was Bishop Fleetwood, who published his Chronicon Perciosum in 1707.* Similar attempts



^{*}See especially, in the 2d ed., 1745, pp. 8, 48-9, 135-8.

were made in 1738 by Dutot, incidentally, in his Réflexions politiques sur les Finances et le Commerce (Vol. I. pp. 365-377), in 1746 by Dupré de Saint-Maur in his Essai sur les Monnoies ou Réflexions sur le Rapport entre l' Argent et les Denrées, in 1764 by Carli in a little work Del Valore e della Proporzione de' Metalli con i Generi in Italia prima delle Scoperte dell' Indie con Confronto del Valore e della Proporzione de' Tempi nostri, and finally in 1798 by Sir George Shuckburgh Evelyn incidentally in his Account of some Endeavors to ascertain a Standard of Weight and Measure published in the Philosophical Transactions of the Royal Society of London. All these writers sought to measure variations in the "value" of money by variations in the prices of several kinds of commodi-Only two of them. Dutot and Evelyn, the ones who gave least attention to the subject, included wages. and only subordinately, Evelyn giving to wages about one-third as much weight as to commodities, and Dutot treating wages as equally important with the least important commodity in lists containing from four to thirteen commodities, and sometimes omitting wages altogether. It may be noticed also that the numismatist. Eckhel. in his Doctrina Numorum Veterum. 1785. considered the best, though the least practicable, way of estimating the value of ancient relatively to modern moneys was by comparing their relations "to vendible things" (Vol. V. p. 27). The principle of the commodity standard was also enunciated, but with some admixture of the idea of esteem-value, by Solera, who wrote in 1785, but could not publish his work till 1798.*



^{*} Essai sur les valeurs, ed. Custodi, pp. 292, 295.

The question of contracts was discussed principally by the Italian economists. These were almost unanimous in holding that contracts are rightly paid in money having the same power over things. Galiani, writing in 1750, ridiculed those who thought it unjust to pay debts in money altered by the prince. and who instead demanded repayment in the same quantity of metal, saying: "If they believed that with the restitution of the same weight of metal they sustain always that equality which is the soul of contracts, they deceive themselves." For, he continued. "The fact that the intrinsic value of money is almost as variable as its extrinsic, destroys all equality. Thus in our kingdom after a debt had been contracted a hundred years ago for a hundred pounds of silver, if to-day a hundred pounds of silver is restored, the equivalent is not rendered, but hardly the two-thirds of what was agreed upon, because to-day silver is worth certainly a third less than then, or, according to the popular expression, commodities have grown dearer [i.e. risen in price] by a third."* And similarly, but more definitely. Beccaria objected both to the old doctrine that contracts should be paid in the same denominations, whatever the intervening alterations of the moneys, and to the more recent doctrine that they should be paid in the same quantity of metallic contents in the coins, condemning the former as "little legitimate" and the latter as "not seeming entirely to satisfy equity." The reason he gave for the last was that. "If with an ounce of silver a century ago I could have had the double of the things which I can now have with the same, any one who then loaned me that ounce of silver ceded the right to

^{*} Della moneta, ed. Custodi, Vol. II. pp. 259-60.

have the double of the things which can now be ob-Now, he who pays, being under obligation to put the creditor in his pristine right, ought to return to him enough silver to have the double of these things: therefore he ought to return not one ounce of silver. but two, so as to give right to double the things obtainable with one ounce. "But." Beccaria continues. "the variety and the want of entries and the diverse abundance of things render difficult the exact computation of how much ought justly to be repaid. In order to approximate to the truth, it seems that we ought to have regard to the quantity of metal compared with the price of goods of first necessity at the time of the loan. since these are the most common, the best known, and the least variable in value of all things."* The ending appears to be a limitation of the multiple standard only for convenience. A little later, in 1771, Verri touched upon the question, but despaired of being able to measure the variations in the value of money by means of prices, and yet regarded the principle of paying debts in money with the same value so measured as the nearest approximation to rectitude.† But the fullest attention was about the same time given to the subject by Vasco in his essay Della Moneta, published in 1772. Vasco was one of the first to define the "value of money" as "nothing but a relation of money to the thing for which it is exchanged" (p. 7 of Custodi's ed.), or as "all that people usually give for it" (p. 8). He maintained that the "true or real value" of a coin (of one metal) "results from its relation to other kinds



^{*}Elementi di economia publica, lectures delivered in 1769-70, first published in 1804 by Custodi, Vol. II. pp. 48-9.

[†]Meditasioni sulla economia politica, ed. Custodi, Vol. I. pp. 146-149.

of money or to commodities" (p. 17 n.), and that when the money metals have varied relatively to one another the proper way to find which has varied in value, and which not, is to find their relations, or to confront them, with the universality of commodities (pp. 11, 130-1).* He now likewise recognized that not only a debt repaid after a hundred years in the same denominational sum, but a debt then paid in the same quantity of metal, would not return an equivalent, since a given number of unaltered coins "represents at present considerably smaller quantities of commodities than it did a hundred years ago" (p. 151). And if he admitted the principle of making contracts payable in coins of a fixed weight of metal (preferring copper for the standard), it was only because of the difficulty, and the likelihood of error, in the measurement of value, and because this system did away with at least one of the causes of variation in the value of money (pp. 131-2, 152).

The was also among the first to express the idea contained in the following words: "The relation between money and commodities being able to vary either because of a change happening to the commodities or because of a change occurring in money, in the first case it is properly said that the value of the commodities has changed and in the second the value of money," p. 10. But here he made no reference to labor or any other standard, and the context shows that he did not conceive of all commodities as changing in value, but only of one or a few specimens.

tThe Scottish economist Sir James Steuart had a similar conception about the propriety of paying contracts in the same value rather than in the same metal, cf. his *Inquiry into the principles of political economy*, London, 1767, Vol. I. p. 539. But his ideas about the nature of value were hopelessly confused (as partially admitted by himself, Vol. II. p. 56). He thought he found a stable standard in Banco money, or, at times, in a mere system of denominations, Vol. I. pp. 531, 532, cf. also his *Principles of money applied to the present state of the coin of Bengal*, 2d ed. 1772, pp. 11, 17, though he ultimately recommended that this should be firmly attached to a fixed quantity of bullion. In all but the last respect he has been succeeded, to mention the most respectable, by Th. Smith,

\$5. Labor as a standard of value through the course of time seems to have been first suggested by Franklin But Franklin conceived of this standard very indefinitely, confounding two distinct ways of using it. which later, as we shall see, became the subjects of contention between two branches of the British school of political economy. For in some passages Franklin conceived the standard to be the labor-cost of producing the material used as money (Op. cit. pp. 265, 270). and elsewhere he conceived it to be the inverse of the quantity of labor money will purchase, that is, the inverse of wages (pp. 265-6, 268).* The standard of wages alone was again made use of by Harris. who published his Essay upon Money and Coins, in two Parts, in 1757 and 1758. Harris wrote: "The wages of the lower classes, wherein is to be included, as well the common artificer as the husbandmen, seems to be the main and ultimate standard that regulates the values of all commodities" (Part I. p. 13, cf. p. 9). But Harris was influenced by other than scientific interest in advocating this standard. He wanted to prove that silver was still the monetary standard in England in spite of its disuse in large transactions, and he sought to prove this by arguing that as wages were the standard of value and as wages were paid in silver, therefore silver was the standard (ib., also Part II. p. 94). He was, of course, mixing up two meanings of the word "standard."



Essay on the theory of money and exchange, London, 1808, 2d ed. 1811, by W. Lipke, Notion de la monnaie, Journal des Économistes, 15 sept. 1853, and by a couple of recent writers who will be noticed later.

^{*}Upon these matters he was less precise in his letter of Feb. 21st 1769 to Lord Kames; but there he was more specific in re-connecting the measure of value with the food standard by confining the standard labor to agricultural labor, Vol. VII. p. 435.

§ 6. In this cursory history of the opinions of the early economists, it may be noticed that the idea of exchange-value predominates. A few writers were insensibly led from the commodity standard, curtailed to food stuffs, to what seems rather to be the idea of esteemvalue, while only two regarded labor as the standard and so conceived either of esteem-value or of cost-value. notwithstanding that some others, such as Petty and Cantillon, held the cost-of-production theory of relative We now come to that writer who, himself the values. principal introducer of the term "exchangeable value." was the first to consider seriously the important or "real" feature in the value of money to be another kind of value, for which he had no name, and thereby became the father of confusion in modern political economy.

CHAPTER II

ADAM SMITH AND RICARDO

\$1. Adam Smith, after disentangling "exchangeable value" from "value in use," distinguished within the former between nominal and real exchangeable value, or, leaving off the specific epithet, between nominal and real value. By "nominal value" he meant only exchange-value in money (p. 157b, cf. p. 15), and had no term for general exchange-value, in distinction from such a particular exchange-value. He therefore dismissed this kind of value, and with it the whole of exchange-value proper, and confined his attention to what he called "real value," or, by still omitting the epithet, simply "value," which soon became something

else than exchange-value, although it confusedly retained some of the elements of exchange-value. Adam Smith now conceived of labor not only as the measure of value at a given time and place, but as the standard of value at all times and places (p. 16b). influenced to this by two distinct reasons. The one is that every man is rich or poor according to his command over "the necessaries, conveniences, and amusements of human life," and that, as no one procures all these things by his own exertions alone, he can have command over these things only in proportion as he has command [which, apart from his own labor, can be given him only by his already accumulated possessions in land and commodities over the labor of other persons, so that the value to him of anything he possesses is represented by the labor it will enable him to command (p. 13b). The reasoning here is defective, because labor is used merely as an intermediary between the wealth a man possesses and the wealth he consumes, and by similar reasoning the measure and standard of value could be shown to be money or anything else. The other reason is that "equal quantities of labor, at all times and places, may be said to be of equal value to the laborer" (p. 15a). With this statement the trouble is the impossibility of putting any meaning into the word "value" as here used. Certainly none of the economic senses of the term is applicable. and especially not any sense that can be ascribed to the term "exchangeable value."* A better position is taken



^{*}If he had said the whole quantity of the goods purchasable with a given amount of labor is always of the same value to the laborer, he would have used the word "value" with a possible meaning; for this assertion has meaning when we interpret "value" as esteem-value. In

when he says that "the real price of everything, what the thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it" (p. 13b). and that to mankind in general labor is the "first" or "ultimate price" that we pay for all things (pp. 14a. 87a), although the expression here is faulty in that the term "cost" would be better than the term "price." We must, however, be careful to notice how Adam Smith uses this term "price" and the term "value": for he makes a clean-cut distinction between them. "price" of an article, in his phraseology, is what we give up, or what it costs us, in order to get the article: but the "value" of the article is what we can get by giving it up or exchanging it away. Now in a primitive society Adam Smith conceived that commodities would exchange in proportion to the amounts of labor it took to produce them (pp. 21-22). Hence, in such society their price and their value would coincide. But in the advanced stages of civilization in which we live he recognized that commodities do not exchange in proportion to the labor required to produce them, that is, in proportion to their labor-costs. Hence, in our world, the price and the value of commodities in labor no longer coinciding, the measure of price and the measure of value are different. Thus Adam Smith tells us the "real price" of a commodity is the quantity of labor required to produce it (pp. 13b, 87a,

this form we shall find the statement made by Malthus and with a variation by McCulloch. It was doubtless what Adam Smith really meant; for a few lines further on he says; as the same labor "may sometimes purchase a greater and sometimes a smaller quantity," of goods, "it is their value which varies, not that of the labor which purchases them," meaning the value of the individual goods, not the value of the whole.

cf. 14a), but the "real value" of a commodity. and of money, is the quantity of labor it will purchase (vp. 13b, 14a, b, 97b, 157b). From the other side, to him, the "real price" of labor is "the quantity of the necessaries and conveniences of life, which are given for it" (p. 15a), while the "real value" of labor is labor itself, always the same, as already noticed.* The measure of real price did not occupy Adam Smith's attention: but he busied himself much with the measure of real value, or with the real measure of value. In the case of money, its "real value" would be according to the quantity of labor it will command. or, in his phrase, purchase, thus being according to its purchasing power over labor, or according to its exchange-value in labor. It would thus be the inverse of the nominal or money "price of labor." or wages. And if Adam Smith did not, in his attempts to measure variations in the value of money, so make use of wages, but in their place substituted the price of corn, it was only because of the practical difficulty of his not being able to obtain tables of wages, whereas he was able to obtain tables of the prices of corn, and he thought the variations of the prices of corn most likely to approximate to variations in the prices of labor (pp. 16a. 17a-b), thus inverting the procedure of Rice Vaughan (to which, as we have seen, Dugald Stewart later reverted).† Thus wages were Adam Smith's real

^{*}There is an obvious defect in this contrast; for the quantity of necessaries, etc., given to the laborer for his labor is the same as the quantity of necessaries, etc., which his labor purchases, and therefore that quantity could equally well be regarded as the "value" of his labor, which would then fluctuate with that quantity.

[†]Further on in his work Adam Smith gave another wholly different reason for considering corn the standard of value. This is the opinion

measure of the value, or "exchangeable value," of money.

Now, if Adam Smith had confined himself to saving that the rate of wages is the measure of the "value" of money, so that for the "value" of money to remain constant, the rate of wages should remain constant, he would have approached near to a true statement. He would not have reached a completely true statement. because wages are not the only earnings which men Instead of "wages," then, he make-by their labor. should have said that "earnings" (meaning of course money-earnings) are the measure of the "value" of money. But so put, the statement would be vague. because of the vagueness of the term "value." Yet the very vagueness of the term "value" would now call for definition, and it could easily be seen that such a standard is not the measure of the exchange-value of money, but of its esteem-value; for the more money people in general earn, the less they esteem it, and conversely: and if the rate of earnings remains constant, constant

already referred to about the same quantity of corn always "maintaining" the same amount of labor, pp. 229a, 239a. The reasoning seems to be that as corn maintains labor, and as the quantity of labor a thing will purchase is the measure of its real value, therefore, ultimately, the quantity of corn a thing will purchase is the measure of its real value. Agreement between this corn standard and the labor standard would last only so long as laborers are kept on a fixed (a minimum) diet; which was not believed by Adam Smith to be a permanent condition. In another passage, p. 86a, as also previously noticed, Adam Smith recommended the corn standard because of the uniformity through time in the cost of production of corn, which is still another entirely different reason. The first of these is perhaps only an underlying reason for his opinion that the price of corn agrees in its variations over long periods with the price of labor, or wages; cf. pp. 16a, 86b. The last is only an accidental slip from his real position, like his slip in once using the costof-production theory to explain relative values, p. 145a (cf. p. 14b), which is quoted with pleasure by Ricardo, Works, p. 186.

would seem to be the esteem-value of money. Adam Smith, however, was inventing a new confusion when he applied this measure to the "exchangeable value" of money. The phrase, the "exchangeable value of money," which he defined as its "purchasing power" (p. 13a), must inevitably hear with it reference also And so we find Adam Smith not to commodities. only using the quantity of labor purchasable with money as the measure of the exchangeable value of money, but also "the quantity of labor and commodities" (p. 101a), or even "the quantity of labor which any particular quantity of them [gold and silver] can purchase or command, or the quantity of other goods which it will exchange for" (p. 115a).* Here is obvious inconsistency. Three distinct positions are held. One is that the value of money is measured by the labor alone which, as is said, the money can purchase. Another is that it is measured by the labor and the commodities which the money purchases - by a combination of both, so that it might be constant if the money purchased more labor and less commodities, or reversely. And still another is that it is measured indifferently either by the labor or by the commodities which the money purchases. This last position would, indeed, harmonize the former two, if it were true that it is indifferent whether we measure the value of money by labor or by commodities, that is, if it were true that these two methods of measuring the value of money must always give the same result (the cases above supposed not being able to occur). This position Adam



^{*}Compare also his definition of "real wealth" as the "power of purchasing the labor, or the produce of the labor of other people," on p. 115a, with his original definition of wealth.

Smith once assumes, when he says that a man's fortune is precisely in proportion to "the quantity either of other men's labor, or what is the same thing, of the produce of other men's labor, which it enables him to purchase or command" (p. 14a). But this is not only not true, but it is not even his own doctrine, because his own doctrine was that this would be true only in a primitive society and that it is not true in our age. Moreover he himself recognized that at different periods the productiveness of labor is different. so that a money which at different periods will command the same quantity of labor will not command the same quantity of the produce of labor, and conversely (pp. 16 a. 37 a); and it is precisely between these two variables that he chose for his standard the purchasable quantity of labor instead of the purchasable quantity of commodities. He chose the standard of producing power measured by time, instead of the standard of producing power measured by efficiency. Hence he ought to have abided by the one of these standards and to have totally rejected the other. inability to do so was due to his choosing as the standard of "exchangeable value" the standard which was not the proper one for exchange-value, whereupon the standard rejected, which is the proper one for exchange-value, inevitably forced itself upon him and mixed itself with the other. Adam Smith's position, therefore, needs correction. The standard which he set up for "exchangeable value" is really the standard of esteem-value. And the true standard for exchangevalue proper he rejected, though he also admitted it into illegitimate partnership with the other standard. If he wanted the "value" of money to remain constant according to the standard which he chose, he really wanted constancy of its esteem-value. But his words imply that he wanted constancy of its exchange-value. In wanting both these things together, he wanted the impossible. Which of these he would have selected, had he recognized their incompatibility, we cannot tell. We must, however, regard him as inclining rather to the wages standard, and to the view that what ought to be constant in money is its esteem-value.

§2. Ricardo, as is well known, applied to all times the doctrine which Adam Smith confined to primitive times. Ricardo revived the doctrine that even in the advanced stage of society in which we live the "relative values" of commodities are determined by the quantities of labor needed to produce them, modified by adding that the quantities of labor referred to are those which are needed at the least fertile or least favorably situated sources of production that are actually worked. As a doctrine explaining why at any one time and place certain commodities have certain values relatively to one another, we are not here concerned whether it is true or Confined to this purpose, the doctrine has been most successfully riddled: But we may even allow it hypothetically to be true, and what concerns us is the conclusion which Ricardo drew from it, and the conclusion which ought to be drawn from it, concerning the standard of value through the course of time. Ricardo drew the conclusion that "that commodity is alone invariable which at all times requires the same sacrifice of toil and labor to produce it" (p. 166).* This is only a summary statement, certain modifications being needed not only about the poorest sources worked, but about

^{*}References are to McCulloch's edition of Ricardo's Works.



the relative amounts of capital, or past labor, and of present labor employed.* But, modified or unmodified. this is not the proper conclusion to be derived from the original doctrine itself, if by "value" Ricardo still meant "relative value" or "value in exchange." The conclusion really passes to something else, namely, to costvalue. For it is obvious—and the original doctrine about the relative values of commodities is not needed to found this on — that that commodity which is always produced at the same expenditure of labor, which always costs the same labor (past and present being somehow harmonized), is constant in cost-value. But such a commodity need not always be of the same "exchangeable value." even in Adam Smith's sense of exchange-value in labor, or purchasing power over labor. or in what we have seen to merit being considered to be esteem-value: which is precisely why Ricardo rejected Adam Smith's doctrine. Much less need such a commodity be always of the same "exchangeable value" in the proper sense of this term, as purchasing power over other commodities: which is also admitted by Ricardo himself. The first of these statements is true if the sources of the production of the article be more or less monopolized, so that some of its exchange-value accrues to the owners even of its poorest sources as rent additional to the profit which is the ordinary reward of their labor. And the second is true if all other commodities, or the majority of them, be improving in the costs of their production, so that their cost-values are falling; for then their "relative values" compared with the "relative value" of this unimproved article will fall. and its "relative value" compared with theirs will rise.

^{*}These are added on pp. 28-9 and 46.

So, when the cost-values of all commodities are falling. it is obvious that gold or silver, or money in general, would retain the same "relative value" compared with them, only if its cost-value fell in the same average proportion. In one passage Ricardo makes this very supposition, but all that he thence concludes is that, when such a universal fall in cost-values has taken place, the articles "will all regain their former proportions" (pp. 167-8). It is plain that these "former proportions" are the former "relative values," or exchange-values, of all the commodities, including gold and silver. Ricardo here omits this obvious statement, and maintains simply that all these things have fallen in "value." And if one thing retains its cost-value unchanged while the cost-values of all the rest fall to half what they were before, he says simply that the one "has retained its former value" and the rest have "fallen to half their former value" (p. 169). And so he concludes simply that "the value of a commodity" cannot be estimated "by the abundance of other commodities for which it will exchange" (p. 171). His conception is that a commodity may remain stable in "value" by remaining stable in cost-value even though it may come to purchase more of all other commodities than it did before. because all these commodities have fallen in "value" (since they must have fallen in cost-value to permit of such changes in their "relative value" compared with the one in question), so that it does not, so to speak. purchase more "value" than it did before.

Now, Ricardo admitted Adam Smith's first division of value into value in use and value in exchange; and also at times made use of his second division into nominal and real value. And it is evident, in Ricardo's

case, as in Adam Smith's, that this second division is a subdivision of one of the terms in the first division. For, after making the first division, Ricardo turned all his attention to "exchangeable value," and omitted the specific epithet because of its superfluousness on account of his treating only of this one kind of value. occasionally he did add the epithet "exchangeable," when he happened to be contrasting this value with value in use, and then he treated it exactly as he treated his "real value."* These sub-classes, however, he used in different senses from Adam Smith's. By "nominal value" he meant value "either in coats, hats, money, or corn" (p. 32), i. e. in commodities named, which is particular exchange-value; and we shall presently see allusions, elsewhere made, to what is general exchangevalue, or value in all commodities (not named, however, but understood), which is exchange-value proper. And by "real value" he meant, not Adam Smith's value in, or purchasing power over, labor, which we have viewed as esteem-value, but value identified with "the quantity of labor and capital," itself in his opinion a product of labor, "employed in producing" the thing, which is cost-value. And now again, still like Adam Smith, as he was devoting his attention principally to this "real value," he also omitted this epithet, and generally spoke simply of "value," meaning "real value," or what if written out in full would be "real exchangeable value." It is apparent that in all the preceding exposition of his views, although speaking only of "value," he was confining his attention to "real value." Yet in other passages, while still speaking only of

^{*}As on p. 172. Also on p. 377, which occurs in an early tract in which he frequently used the full phrase.

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"value," he evidently had in mind, not his "real value." or cost-value, but exchange-value proper, or his "nominal value" in an extensive sense, or the "relative value" of one commodity compared with others in general. Thus, while following Adam Smith in defining "exchangeable value" as purchasing power (pp. 9, 49). leaving off the epithet, in the heading of the very first section in the first chapter of his Principles of Political Economy he speaks of "the value of a commodity" as "the quantity of any other commodity for which it will exchange." Similarly he twice identifies a rise of prices with a fall of the "value" of gold (pp. 214, 377). He likewise definitely declares: "The only proof which we can possess of the relative cheapness of money in two places, is by comparing it with commodities. Commodities measure the value of money in the same manner as money measures the value of commodities. If, then, commodities will purchase more money in England than in France, we may justly say that money is cheaper in England" (p. 293). And even more formally he asserts: "The value of a commodity is estimated by the quantity of other things generally for which it will exchange" (p. 401). Still, through insufficient terminology, he cannot see that while the former doctrine is tenable of cost-value, or his own "real value," the latter alone is true of exchange-value. and only of exchange-value, and that the two are not incompatible, as each holds good of a different kind of For in the text surrounding the last quotation he actually rejects the standard of "the mass of commodities" whereby to judge of the "value" of money. on the ground that each commodity may be varying in "value" because of altered costs of production (pp. 400-401, cf. also p. 470). To him all commodities together can rise or fall in "value," and cannot be the standard of "value" any better than a single commodity (p. 166). We of course know that all commodities can rise or fall together in cost-value and in esteem-value, wherefore all commodities together must be rejected as a standard of cost-value or of esteem-value. But we also know, what Ricardo does not appear to have seen,* that all commodities together cannot rise or fall in exchange-value; wherefore they constitute a perfect standard of exchange-value.

Thus, just as Adam Smith was confused between exchange-value and esteem-value. Ricardo was confused between exchange-value and cost-value.† Ricardo advocated a certain doctrine explanatory of the "relative values." or exchange-values, of commodities at any given time and place, where the commodities are exchanged for one another. Because this doctrine explains such "relative values," or exchange-values, by relative costvalues (cf. p. 186), he thence passed to the conception that through the course of time the constant "exchangeable value" would be a constant cost-value. He transformed labor-cost of production from a determinant of the relative values of exchanged things into a determinant of their absolute value, so to speak, without reference to exchanges, saying "Labor is a common measure by which their real as well as their relative value may be estimated" (p. 171). He did not see that in this transition he dropped the correlativity essential in the



Or else he would not have written as he did on p. 377 and p. 378 n. til is amusing to see Ricardo criticize Adam Smith for not adhering to his definition of "value" as purchasing power over commodities (p. 14), when he himself, though adopting the same definition, did not adhere to it.

conception of exchange-value, and relied merely on the relativity (to labor) which is to be found only in the conception of cost-value (and perhaps of esteem-value). He did not see that while his own doctrine called for maintaining the labor-cost of production to be the measure or standard of "real value" in his own sense of this term as cost-value, through the course of time, and while it, rightly or wrongly, maintained such laborcosts to be the determinants of "relative values," or particular exchange-values, at any time and place, his own doctrine did not call for the labor-cost of production of a given thing to be the determinant and the measure or standard of its exchange-value in the only - sense in which the term "real exchangeable value" has meaning, viz. general exchange-value, through the course of time, for which conception the only measure and standard is an average of "the mass of commodities" without regard to their varying costs of production, since these directly affect only their cost-values. Not seeing this, he simply took constancy, not of exchange-value, but of cost-value, to be constancy of "value," although pretending always to be treating of "exchangeable value." Thus, although in the explanation of relative values he successfully took "value" in the sense of exchange-value, yet in the matter which concerns us here, he deviated and took "value" in the sense of cost-value. In consequence of this deviation, the quality of invariability in "value" which he desired in money was invariability in cost-value (pp. 29-30).

§3. Ricardo's slip was even less excusable than Adam Smith's. Adam Smith could, by a common misuse of language, include labor along with commodities among the things purchasable, which measure the ex-

change-value of anything that purchases or can purchase them. But the labor which Ricardo used as his measure of value was not the supposedly purchasable object, but the amount of effort needed for producing the article. This labor was by Adam Smith called the "real price" of the article, and the application to it of this term, though faulty, was better than Ricardo's treatment of it as the "real value" of the thing. If Ricardo had called it the "cost-value" or the "real cost-value" of the thing (or had confined the last complete term to the labor-cost of production at the least fertile source worked), his language would have been unobjectionable, and it would have led to different thought.

What it is necessary to notice is that both Adam Smith and Ricardo made a fundamental mistake which has been fatal in economics. This fundamental mistake lies in their classifications of value. They both primarily divided value into use-value and exchange-value. and properly dismissing the former, confined their attention to the latter. This they then divided into two sub-species, nominal and real value, though they each conceived of these somewhat differently. The former of these they now treated almost as they had treated usevalue: they paid little attention to it and devoted most of their attention to the latter. Such double dichotomy was the great misstep. For the "real values" they each had in mind are not sub-classes under exchange-value. but are coördinate classes, alongside of exchange-value. under value alone. If this had been perceived. Adam Smith would have given us three kinds of value: usevalue, exchange-value, and "real value" in the sense of esteem-value: and Ricardo would have given us three kinds of value, the first two overlapping, and the third

being "real value" in the sense of cost-value: by combining which their followers would have recognized four kinds of value, and would not have had to wait till Roscher pointed out the latter trichotomy and Jevons the former. A further mistake was to designate any of these kinds of value by the term "real value," which is not descriptive, but characteristic. To call one of the kinds of value "real" is to imply that it is the principal or the most important kind of value. But even if the one kind which is truly the principal and most important is rightly selected, it deserves to have a name of its own instead of being called only by its character of being the most important. It is questionable, however, whether any one of the kinds of value can simply in general be regarded as the principal and most important: for it may be that one of the kinds is the most important for one purpose and another for another. At all events the selection of the most important would seem to demand some preliminary investigation into the natures of all the kinds and comparison of their uses, to see which deserves to be regarded as the most important—or as the most important for one or for another purpose. such preliminary investigation is precisely what Adam Smith and Ricardo, the recognized founders of the socalled "classic" political economy, did not perform. They each started out from the very beginning by characterizing one kind of value as the most important by calling it alone "real value." And so, in our subject, they immediately jumped to the conclusion, the one that money should be stable in esteem-value, and the other that money should be stable in cost-value, without basing these conclusions on any investigation whatsoever. Not the slightest reason is offered by either of

them to show why money ought to be stable in esteem-value rather than in cost-value or in exchange-value, or why it ought to be stable in cost-value rather than in esteem-value or in exchange-value. They merely involved these doctrines in their use of the word "real." And yet it is upon this filmsy basis that the mass of modern economics is founded. But fortunately some economists have not been imposed upon by the mere use of a word originated by these leaders. Also the inherent inconsistency in this use of language and wrong classification of values, has necessarily involved the followers in the inconsistency of admitting also exchange-value into their conception of the value in which money ought to be stable.

§4. Adam Smith and Ricardo being divided, their followers in the so-called "classic" school would properly separate into two branches. Into two such branches some of them did, in fact, segregate themselves: so that we have for review the followers of Adam Smith forming one line, and the followers of Ricardo forming another. But not all their followers recognized the distinction between the apparently but slightly differing positions concerning the relation of value to labor; so that we shall find many economists retaining both the labor standards. And this happens generally in connection with another confusion. Adam Smith and Ricardo both used the term "exchangeable value" to describe the principal economic value, and as they both used not only this term, but the term "value" itself, in the sense of exchange-value proper as well as in one each of the other two kinds of value, it was only natural for their followers to fall into confusion not only between the two kinds of labor-

value on which the leaders parted, but also between these and the exchange-value which the leaders united in maintaining. We shall therefore find a line of economists who either have held both or all the doctrines together, or have passed alternately from the one to the other (or others) without giving us opportunity to pin them down to one consistent opinion. Slightly different from these, and classifiable into another line. are those who have passed from the one doctrine to the other (or others), holding the one at one time of life. in one or more works, and the other (or others) at another time of life, in other work or works, many of them without seeming to be conscious of the transition. After reviewing these, it will be in order to trace the line of dissenting voices of those who call back to the older conception that money ought to be stable in exchange-value proper, or who dwell upon the sense of exchange-value in the economic terms "exchangeable value" or "value" simply. Such economists stand. in this respect, out of the succession of Adam Smith and Ricardo, although many of them may have thought they were merely using their leaders' idea of "exchangeable value." Lastly, in recent times, there are economists who have directly sought to occupy a position midway between advocacy of money stable in exchangevalue and advocacy of money stable in esteem-value or Several lines thus present themselves. cost-value. along which to review the opinions of later writers; and in each we may pass in historical sequence from the time of Ricardo down to the present.

CHAPTER III

FOLLOWERS OF ADAM SMITH

§1. Outside of England the subject was little discussed, or the foreign economists fell between the two English schools. In France "the natural and necessary wage" was pronounced to be the standard by Canard;* and the wages standard was held in Germany by Von Jakob and by Kudler.† The treatment seems to have been superficial. We are, therefore, mostly concerned with the English. Among the English the principal follower of Adam Smith and opponent of Ricardo was, in the latter part of his life, Malthus.

Bailey preceded him in this.

§2. Malthus, in his later works, has the merit of being perhaps the first to point out that an inquiry into the measures of value is different from an inquiry into the causes of value (p. 83). He argued at length against the cost-of-production theory of relative values (pp. 85-93), and maintained the demand-and-supply theory (pp. 61-82), although he admitted that in most articles there is some dependence upon the cost of production through the influence of this upon the supply. But he sought after a measure of value, or standard of value, through the course of time, independent of his theory of what causes the relative values of things at any given time and place. Now, by "value" unspecified saying that he meant always "value in exchange"

^{*} Principes d'économie politique, Paris, 1801, p. 73.

[†]According to Rau, Op. cit. § 179.

References not otherwise accounted for are to the Principles of political economy, 2d ed. 1836.

(p. 50), he averred that "the question of the existence of a measure of value depends upon the sense in which we understand the term value in exchange" (p. 118). In an earlier work, Definitions in Political Economy (London, 1827), in which he rarely used the full terms "value in exchange" or "exchangeable value." but contented himself with the bare term "value." he wrote: "Whenever mention is made of the value of a commodity at different periods. I have always thought that a reference has been intended either to its general power of purchasing, or to something calculated to express the estimation in which it was held at these different periods, founded on the state of its supply compared with the demand, or the elementary costs of production" (p. 169). And wanting one definition of value. because these two conceptions of value often part company, he thought it better to confine the term "value" to the latter of these senses (ib. p. 181). For this preference he gave several reasons, one of which is the impossibility of any accurate measurement of the former (ib. pp. 182, 205), another that the latter is more conformable to popular usage (ib. p. 182), and another that "labor best represents an average of the general mass of products" (ib. pp. 205, 206), which is precisely what it does not do. He therefore laid down this definition: "The value, market value, or actual value of a commodity at any place or time" is "the estimation in which it is held at that place and time, determined in all cases by the state of the supply compared with the demand, and ordinarily by the elementary costs of production which regulate that state" (ib. pp. 242-3). These views he retained in the later edition of his Principles, with the changes only that he now fre-

quently introduced the full terms "value in exchange" or "exchangeable value" where he had before used merely the term "value," and that he now recognized "three sorts of value" (p. 60). The one of these is "value in use," which he dismissed from view. Both the other two he called "value in exchange" or "exchangeable value," but distinguished the one as "nominal value in exchange," or "the power of purchasing generally" (p. 60 n), or "the general power of purchasing" (p. 58), and the other as "intrinsic value in exchange," or "the power of purchasing arising from intrinsic causes" (pp. 60, 111). In regard to the former of these, the second kind of value, dropping the epithet "nominal," he twice defined "value in exchange" or "exchangeable value" as "the relation of an object to some other or others in exchange" (pp. 50, 61). This is a definition of exchange-value proper. To the third kind of value, the second kind of "exchangeable value." he applied the definition above given of "value" (p. 60).* or modified it into this: "the estimation in which a commodity is held, founded on the desire to possess, and the difficulty of obtaining possession of it" (p. 60).† Here we have three of our four kinds of value, use-value, exchange-value, and esteem-value, clearly defined as to their nature, but cumbrously distinguished by the phrases applied to them. Although he made the division into "three sorts," yet by giving the same general name, "exchangeable value," to the



Repeated on pp. 109, 110, 111, 122, as before, as the definition of «value" simply.

[†]By "difficulty of obtaining possession of it" he meant not the difficulty of producing it, but the difficulty of procuring it from those who produce it—the "price" or cost in labor which the purchaser has to pay for it.

last two, he virtually reunited them, and so still retained the old double dichotomy. His nomenclature being cumbrous, he recognized that people could not be expected always to use for the last kind of value either the term "intrinsic value in exchange" or the phrase "purchasing power arising from intrinsic causes." nor did he pretend to do so himself. But he wanted us all. when we use the abbreviated expression "exchangeable value." always to use it only in this last sense (p. 119). He even had the hardihood to pretend that already this is the popular meaning not only of the term "value" (p. 122), but of the term "exchangeable value" (p. 118), giving some reasons for so saying (pp. 58-59), which at best apply only to the term "value" and not to the term "exchangeable value."* And stripping the term still further, the naked term "value" he would of course have us use only in this sense. there is less likelihood of ambiguity; but still there is much likelihood of ambiguity, since the term "value" always has been, and always is, used also in the sense of mere purchasing power.†



^{*}On pp. 121-2 he objects to using the term "value" in the sense of exchange-value proper, on the ground that it would then be synonymous with "price." This only applies to particular exchange-value, not to general exchange-value, which is very different from "price." It also does not show why the term "exchangeable value" should be used in the sense in which he would use the term "value." His only reason for wanting this seems to be that Adam Smith had done so. Yet he now objects to Adam Smith's definition of "value" in the sense of "exchangeable value" as purchasing power simply, p. 117, although we have seen him make the same sort of definition himself. He might much better have objected to Adam Smith's mixing up "value," in the sense of esteem-value with "exchangeable value," instead of following his example.

[†]The term "power of purchasing" Malthus would leave us in the general sense of exchange-value proper. His position may be made

Having this conception of "value" as "intrinsic value in exchange," defined as "the estimation in which a commodity is held" (for the cause of the property has no business to be included in the definition), Malthus connected it with Adam Smith's wages standard instead of with Ricardo's cost-of-production standard. He did so because he perceived that the variable elements of time and profits disturb the proportions in which commodities exchange relatively to the labor bestowed upon their production, so that the difficulty people in general have in procuring commodities does not correspond

plainer by quoting two more passages from his Definitions: "There is the greatest difference imaginable between an increased power in any object of purchasing other goods, arising from its scarcity and the increased difficulty of procuring it; and the increase of its power to purchase other goods arising from the increased plenty of such goods and the increased facility of procuring them," p. 131; "The moment we come to inquire into the variations of the values of commodities at different periods, we must, with any view to precision and utility, draw a marked line of distinction between a variation in the power of purchasing derived from causes affecting the particular purchasing commodities, and the variations in the power of purchasing which may arise from causes operating upon the purchased commodities. We must confine our attention exclusively upon the former," pp. 186-7. These are the distinctions which he later in the Principles describes as variations of purchasing power due to intrinsic causes (residing in the article in question whose purchasing power is varying), and as variations of purchasing power due to extrinsic causes (residing outside the article in question, in the other articles over which its purchasing power is varying), pp. 59. 60n, acknowledging indebtedness for these terms to Senior, pp. 56-7. The difference, in fact, is so great that in the former case it is variation in the cost-value or esteem-value of the article in question, and in the latter it is opposite variation in the cost-values or esteem-values of the other articles, while it is implied that in the former case the other articles keep their cost-values or esteem-values constant, and that in the latter the article in question keeps its cost-value or esteem-value constant. But the fact that there is such a difference is not a reason why we should confine our attention only to one of these variations. Another case is overlooked (except once in Principles, p. 58). This is

with the difficulty the producers have in producing them. But the estimation in which commodities are held is founded upon the difficulty people have in getting possession of them. Hence he concluded that "if the real value of a commodity be considered as synonymous with the estimation in which it is held, such value must be measured by the quantity of labor which it will command, and not by the quantity worked up in it."* Having thus readopted Adam Smith's standard, Malthus stuck to it. We have seen that Adam Smith admitted also commodities into his standard of "exchangeable value," because we exchange the article whose value is

*Definitions, pp. 116-7; cf. Principles, pp. 82, 92, 111, and passim. Malthus went further than Adam Smith and denied the cost-of-production theory of relative values even in primitive times, pp. 85-8.

when the cost-value or esteem-value of the article in question varies in the same proportion as the cost-values or esteem-values, individually or collectively (on the average), of the others. For now the purchasing power of the article in question remains constant, and this constancy is due both to intrinsic and to extrinsic causes. This case calls for attention surely as much as the others; which shows that the action of extrinsic causes must also be taken into consideration. Now in both the above passages, as elsewhere always, Malthus allows that in both the two cases cited there is variation in the purchasing power of the article in question, but only in one of them will he allow that there is variation in the "exchangeable value" of the article (while in the last supposition he would allow the "general purchasing power" to be constant, but not the "exchangeable value"). It is thus that he uses "exchangeable value" in the sense of esteem-value, although the only proper sense the term can possibly have is precisely the identification which Adam Smith made of it with "purchasing power." and Malthus shows not a particle of reason why "exchangeable value" should be differentiated from "purchasing power," nor anybody else-nor Adam Smith when he also made this differentiation. Of course, however, Malthus did show that in the latter of his two cases the article in question may be said to remain constant in "value." although its purchasing power or exchange-value is varying. But this is precisely because the term "value" has been, and is, popularly used in another sense beside either use-value or exchange-value, viz. as esteem-value (if not also as cost-value).

being measured for, or with it purchase, not only labor, but other commodities. But Malthus has no concern in his improved conception of "intrinsic value in exchange," whence all notion of exchange has been eliminated, for the articles exchanged or purchased, and he resolutely keeps commodities out of his standard.* For him the measure of the "exchangeable value" of money is wages alone—and wages alone of "standard labor" (pp. 111, 112), which he finds in "common agricultural labor" (p. 96), "estimated in an average throughout the year." because the labor used "must be reduced to labor of one description and of the lowest denomination."† into which "every other kind of labor is resolvable" (p. 116). He uses wages in this way without regard to "whether the quantities . . . of necessaries paid to the laborer be great or small." on the ground, adopted from Adam Smith, that whatever be this quantity, the "value" of it, as a whole, "is always the same" (p. 114), and if the laborer gets more at one time or place than at another, this does not mean that his labor is more valuable, but that the value of the individual commodities is less (pp. 98-110). Thus he conceived of the "value of money" remaining the same so long as "the money price of the standard labor" remains stable, whatever be the changes in the prices of commodities, the changes in the prices of any and even of all commodities being then ascribable to "causes exclusively affecting the commodities," and being employable as indicating changes of "value" only in the com-

^{*}He does not appear to use the phrase "to purchase labor." He generally speaks of the labor which a thing "commands," although occasionally speaking of the labor the thing "exchanges for."

[†]Definitions, pp. 257-8.

modities themselves: but a general rise or fall in the money price of labor he considered a sign of a fall or rise in "the elementary cost of obtaining money," and hence of a fall or rise in the "value" of money (p. 131). Herein is involved the distinction already referred to between the "general power of purchasing" and "intrinsic value in exchange," by the latter being meant purchasing power conceived as varying only through intrinsic causes, and by the former purchasing power allowed as varying, whenever the quantities purchased vary, without regard to what or where the causes may be (p. 58). "The general power of purchasing," says Malthus, "cannot with any sort of propriety be considered as representing the variations in its exchangeable value. The exchangeable value of a commodity can only be proportioned to its general power of purchasing so long as the commodities with which it is exchanged continue to be obtained with the same facility" (pp. 58-9, cf. p. Thus it happens that while Malthus had a clear perception of what is meant by exchange-value proper. or simple purchasing power.* and also of what is meant by a measure of this; and although he admitted that for some purposes a measure of this would be desirable (pp. 57. 119); yet he thought that such a measure would not be a measure of "value," or even of "exchangeable value," but of wealth (pp. 58, 119-20), and therefore



^{*}He was one of the first to recognize the following: "While commodities are merely compared with each other, it is unquestionably true that they cannot all fall together, . . . or all rise together. But when they are compared with the costs of production, . . . it is evident that . . . they may all fall or rise at the same time," Definitions, p. 64, i. e. while they can all fall or rise together in cost-value or in esteem-value, they cannot all fall or all rise together in exchange-value.

not of what we are seeking.* Instead, he thought we all mean by "measure of value" a measure of "the difficulty with which a commodity is obtained" (p. 84, cf. p. 120 n). or of "the desire to possess and the difficulty of obtaining possession of commodities, or the limitation of their supply compared with the demand" (p. 109), or, in short, of "the estimation" in which they are held Thus his conception is of a measure of esteem-value, and not of exchange-value proper, although he speaks of it as a measure of "exchangeable value." And what he wanted in a monetary system stable in "value" and serviceable as a measure of "value." or in his phraseology of "exchangeable value," was stability in esteem-value (cf. p. 120).† But the reason he gives for this is very inadequate. He wants in money stability of esteem-value simply because he considers esteem-value is the kind of value which people generally have in mind when they speak of "value," or even when they speak of "exchangeable value" (which last is absurd). and because he wants this meaning of the word "value" to be held as the only proper meaning of the term (and even of the term "exchangeable value"). It is perfectly true that we may want a measure of esteem-value (difficulty of obtaining possession of goods), as also of cost-value (difficulty of producing goods); but it is still true that we may want a measure of the quantity of commodities a given article possessed, especially money,



^{*}And yet on pp. 303-7 he recommends his own measure of value as especially serviceable for measuring wealth.

[†] It is curious, however, that Malthus, in behalf of the laboring classes, showed preference for rising prices rather than for falling prices, pp. 256-7, cf. p. 240. This was held over from the Essay on population; see in 9th ed. pp. 221, 377-8. He had even followed Hume on this subject in Grounds of an opinion, etc., 1815, p. 32.

will exchange for. The one want does not exclude the other want. And even if a person does think the knowledge obtained by means of the one measure is more desirable, or more interesting, than the knowledge obtained by means of the other, this is not a sufficient reason for wanting money to be stable in the one kind of value rather than in the other. Another line of reasoning altogether is needed to show what is wanted here; and in Malthus's work, as in so many others, this line of reasoning is conspicuous only by its absence.

One reason given by Malthus deserves to be recalled. This is the difficulty, or, as he said without inquiry, the impossibility, of measuring exchange-value proper. He here takes a wholly unsatisfactory attitude. No problem is scientifically settled by abandoning one suggested solution because of some fancied difficulty or impossibility of carrying it out, especially when no attempt is made at carrying it out. Malthus repeats this objection in his Principles, saying it is quite certain there can be no measure of the value of an object in the sense of its mere exchange-value, because this can be affected as well by changes in other objects as by changes in the object itself (p. 117); which is no reason at all, since a measurement of variations that takes no account of their causes is simpler than a measurement that must concern itself with causes. Or he limits this negation by saying that no such measure is possible with any approach toward precision (pp. 111, 118), a reason assigned for this being that "it is absolutely impossible to apply all goods as a measure" (p. 119 n). On the other side, he thinks he can accurately measure variations in his "power of purchasing arising from intrinsic causes." because "we are able to measure the variations

in this power by the varying quantity of a specific object for which it will exchange" (p. 111), namely, wages-and wages only of agricultural laborers. is palpable inconcinnity. If he is to measure variations in the "intrinsic value in exchange," or esteemvalue, of money by its command over labor, he ought. theoretically, to employ all wages, and not only these, but all earnings. And if he will not take less than "all goods" for the commodity standard, he ought not to take less than all earnings for the labor standard. reduce the latter to the wages only of agricultural labor is the precise analogue of reducing the former to the prices only of corn; which is rejected by almost everybody with contempt. Thus if he had tried really to be accurate with his own standard, he would have found that standard just as difficult as the commodity standard. In fact, the execution of the labor standard is so difficult that no economist has ever vet attempted to carry it out even with the correctness it is susceptible of. nor has anyone even so much as made a thorough examination of the theory of it; whereas much closer approximation to theoretical and to practical truth has been reached in the case of the commodity standard. our purposes, then, it may be noted that Malthus was an advocate of stability of money in esteem-value, without any sound reason for his position.

§ 3. Another English economist of note, a younger contemporary of Malthus, Senior, in his *Political Economy*, first published in the Encyclopædia Metropolitana, 1836, and later republished by itself, reverted to Adam Smith's position. Senior started out, however, with a treatment of "value" altogether in the sense of exchange-value proper. He defines "value" as "the

capacity of being given and received in exchange" (p. 7).* and as denoting "a relation reciprocally existing between two objects," which relation is "the quantity of the one which can be obtained in exchange for a given quantity of the other"(p. 14). This is a definition anplying only to what he calls "one of the specific values" of the thing (p. 16). But he immediately extends his view to what he calls "its general value" (ib., cf. also p. 14), which he later defines as "the quantity of all the other subjects of exchange which might be obtained in return for a given quantity of it" (p. 96). He recognizes also that a commodity cannot remain unaltered in "value." in this wide sense, while any other is altered (p. 20), and that all commodities together cannot rise or fall in "value" (p. 21)—all which applies only to general exchange-value. Yet he further on in the work declares the "general value" of a commodity, as just defined, to be "incapable of being ascertained" (p. 96). He therefore looks about for some other way of measuring the "general value" of a commodity than by the quantities of all the other commodities it exchanges for. Among the "subjects of exchange" he has all along included labor. He now affirms that "the best Standard of Value for philosophical purposes appears to be the command of labor" (p. 187). He thus reverts to Adam Smith's standard. That this is not a standard of exchange-value proper, is plain even from the reasons which he himself assigns. He assigns two. The first is shortly stated to be that "labor, next to money, is the principal subject of exchange." But labor is, philosophically speaking, not a subject of exchange, of being "given and received," at all. This ought to have been

The references are to the separate edition, the fourth, 1858.

recognized by Senior. For he had said of the producers of commodities and of services, instancing a shoemaker and a shoeblack. that "both produce the same thing, an alteration in the condition of existing particles of matter," which, therefore, is the only subject of exchange; "but our attention is fixed in the one case on the act. in the other on the result of the act" (pp. 51-52), which can only mean that to speak of exchange of labor is merely to use a metonym for speaking of exchange of the results of labor. The second reason is that "labor. as the principal instrument of production, as the only instrument that can be employed at will in the creation of whatever is most wanted, varies less in its general value than any other article of exchange." This has the defect, already noticed in a similar passage in Adam Smith, that the term "general value" is used without any meaning whatever. Senior, however, continues to develop this reason, with obvious intention of putting some meaning into this use of the term. He asserts that "the value of the command of labor is almost invariable" when estimated in a "class of objects most coveted by man," namely "power and preëminence." "Two persons," he continues, "who, at different times or in different places, can each command the labor of one thousand average laborers, may indeed enjoy in very different degrees the comforts and conveniences of life: but in power and preëminence in their respective countries they must be nearly on a par. Each must be one man in a thousand. Each must be a thousand times richer than the mass of his countrymen. shillings in Hindostan will command as many laborers as twenty in England, a Hindoo with £3,000 a-year is, generally speaking, as great a man in Hindostan as an

Englishman with £30,000 a-year in England." this is a standard of comparative wealth. The Hindoo is admitted not to have as great a command over the comforts and conveniences of life as the Englishman. consequently not to be so rich, properly speaking: he is merely considered to be as rich, compared with other Hindoos, as the Englishman is, compared with other Englishmen. This is certainly not a Standard of Value in the sense of exchange-value. It is, first of all, a standard of social position. But it might be claimed that a standard of social position is a standard of esteem-value. Two incomes that give the recipients the same social position among their fellows, in England and in Hindostan, now and a thousand years ago, might seem to have the same esteem-value in the eyes of the recipients or their enviers. It may be questioned, however, whether the command over the same quantity of labor gives everywhere and always the same social position.* If this is not the case. Senior's added reason for Adam Smith's wages standard is worthless. Suffice it. however, for us, that when Senior here wants money to be invariable in "general value" in this way, he is not only not wanting money to be stable in the "general value" he had himself before been treating of, but he is not offering a single reason really going to show why money should be stable in this kind of value, namely esteem-value, rather than in the other kind of which he had first treated.

^{*}It must be considered also whether the same amount of labor is to be measured by the hour or by the labor-day of variable length.

[†]In a passage in the early part of the work Senior said that a thing is "steady in value" if the causes of the variations of its particular values are in the other things, and so extrinsic, instead of being intrinsic, to it (p. 21). This sounds like Malthus's position, who indeed

§4. The allusion by Senior to Adam Smith's standard of command over labor, by means of wages, is but slight; and this slightness is an indication of the obscuration into which the doctrine was passing. For a long period it was seldom advocated, except perhaps by socialists.* In his work On the Economy of Machinery and Manufactures, London, 1832, Babbage refers to Malthus's proposal of this standard, and himself recommends it as the best standard of value at different times. He modifies Malthus's position, however, by desiring to include the wages of other trades that "require but a moderate exertion of skill." And then he spoils the idea by suggesting another element as useful though not necessary, namely, "an estimate of the quantity of

got these terms from Senior. But Senior's position is very different. He says such a thing is steady in "general value" because it is probable that there is compensation between the variations in its particular values, so that it is likely to "command the same average quantity as before of the general mass of commodities"-and of labor too (he seems to be referring only to short periods). The standard is still the quantities of the things it exchanges for. Now, in the later part of the work when talking about the philosophical standard (only for long periods and distant climes 1), and confining it to command over labor, he omits the commodities. Thus he is inconsistent with himself, and relapses from Malthus's firmly consistent disregard of the quantities of commodities back into the ambiguity of Adam Smith, varying between the mixed standard of commodities and wages (even at times with emphasis on the commodities) to the simple standard of wages. If, however, the inconsistency be explained away by supposing he would use the commodity standard only for short periods and the wages standard principally for long periods, this would mean that the wages standard was his true standard, and the commodity standard is used only for convenience on the occasions when it is not likely to be wrong. But it would not explain why he did not himself make his position clear. He also leaves his wages standard entirely undescribed, although, like the rest, he seems to have had in mind only the wages of the commonest labor.

"Robert Owen's notes representing an hour's labor or the products of an hour's labor seem to be due as much to Ricardo's teaching as to Adam Smith's.

the food on which the laborer usually subsists, which is necessary for his daily support, compared with the quantity which his daily wages will purchase." without telling us what he would do with this comparison (pp. 160-1). If he would correct the wages standard by allowing for the quantity of food purchasable, he would be really reverting to the commodity standard confined to foodstuffs. An unspoilt use of the wages standard was desired by another author, an advocate of paper money. In his Lectures on the Nature and Use of Money, Edinburgh, 1848, John Grav, wishing the issues to be regulated so as to maintain the "value" of money stable, urged that they be so regulated as to maintain stable the "minimum wage of labor" (p. 173). Little more can be found concerning this standard till 1877, when reversion was made to it in a work of some pretension in political economy.*

§5. In A System of Political Economy, J. L. Shadwell uses "value" in the sense of esteem (p. 90), and recognizes that Adam Smith so used the term (pp. 93, 202). But he makes no reference to Adam Smith's confusing use of "value" as "exchangeable value," and himself never uses the latter term. He also objects to conceiving of labor as a commodity subject to exchange, and even to using the expression "the value of labor" (p. 96); and he interprets Adam Smith's assertion about equal quantities of labor always being of equal value to the laborer as merely meaning that a day's labor is always "esteemed an equal hardship by him who has undergone it" (p. 96), and that it is



[•] In this work reference is made to J. Cazenove, Supplement to thoughts on a few subjects of political economy, 1861, as siding on this subject with Adam Smith against Ricardo.

"considered just as irksome" at one time as at another. whatever be the quantity of its product (p. 104. cf. Thus he maintains that people show the esteem in which they hold things by the length of time they will work to acquire them. Hence he more formally defines "value" to be "the esteem in which commodities are held, as measured by the quantity of labor which will be given in exchange for them" (p. 105)which very much resembles Malthus's definition, although Mr. Shadwell appears not to be acquainted with Malthus's later writings in which alone such a definition appears. In particular, Mr. Shadwell says people show the esteem in which they hold money by the length of time they will work for a given sum of it, or inversely by the sum of money, or wages, they get for a given quantity of their labor (cf. p. 101). The same he thinks true of persons who do not have to work for their living: money is valuable to them according to the quantity of labor it will purchase, that is, inversely according as wages are high or low (p. 92). Thus, in general, the value of money, being "equal to the quantity of labor which it enables its possessor to induce others to perform for him" (p. 95), is measured, in his opinion. by the inverse of wages - and only of wages. since by shifting the point of view to the side of the employers of labor all earners of money except the employed are left out of view. It is by this standard he would measure the depreciation of gold since the great discoveries in California and Australia (pp. 203-4), and would determine how much creditors have suffered by being repaid less value than they gave (p. 219).* Mr. Shadwell recognizes that such a stand-

But on p. 292, when he says, "of course the most desirable quality

ard does not measure the amount of comfort which money enables its possessor to enjoy, and seems to adopt it only because it is "a simple and obvious one" (p. 91) and "no better standard has yet been suggested" (p. 92), because, in default of a better, "labor may be taken for this purpose" (p. 93), and because it was adopted by Adam Smith (cf p. 98). In his opinion. however, this standard will not be much wrong even as a measure of comfort, since he holds that, though "quite possible," it is "not very probable" that "labor may become more efficient in all trades" (p. 104). He considers that "no better standard has yet been suggested." because he declares himself unable to conceive of general exchange-value or general purchasing power (p. 93), and because he asserts averaging of prices to be defective through inability to use weighting properly (pp. 94, 201-2), so that the question whether a given quantity of gold "will now exchange for more of commodities in general" appears to him to be "insoluble" (p. 202). In short, he rejects the idea of general exchange-value as inconceivable and the commodity standard as unworkable, and on Adam Smith's authority accepts "value" as meaning only esteem-value and holds the proper measure of the "value" of money through the course of time to be the rate of wages. The wages he would use are those of "common unskilled laborers." principally agricultural laborers, and he wants an average to be drawn (evenly weighted) of the wages of

for a standard of value is that its own value should be invariable," he argues that gold is less variable in value than silver because its production, being mostly by manual labor, is less likely to be improved than is that of silver, which is extracted by chemical processes. This argument he acknowledges to Cherbuliez. We shall meet with it again in earlier as well as in later economists.

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such labor in different parts of the country and to be compared with a similar average at the other period (pp. 92, 203-5). But why this simple average of wages is better than a simple average of prices, or why the subject of weighting is so easily disposed of in the wages standard when it has been a stumbling block to him in the commodity standard, he does not explain. He recognizes that all wages (but not all earnings) ought to be used, and confines himself to some merely through inability to use all, and he thinks those chosen. forming a majority of wages (earnings being left out of account), will approximately represent the rest, and not cause any appreciable error (p. 92). But this, too, is the same as the reason which advocates of the commodity standard employ for not using all commodities. and for inferring that their results will not depart appreciably from the truth. The wages especially of agricultural laborers he says he has taken as the standard. "because agriculture is less subject to fluctuations than other trades, and therefore a change in the rate of wages is less likely to be produced by a cause peculiar to the trade itself" (p. 205). But this, again, is like the position of some advocates of the commodity standard, who would use the prices only of agricultural products as being the least subject to fluctuations in value arising from causes peculiar to themselves. On the whole, then, there seems to be here, as in the case of Malthus, no good reason for holding the wages standard to be simpler and more obvious than the commodity standard. In both cases we seem rather to have the old story of the mote and the beam.*



^{*}Similar positions were repeated by Shadwell in Methods of measuring changes in the value of gold, a paper read before the British Asso-

The wages standard has again been urged, in opposition to the commodity standard, by a more recent anti-bimetallist, who is also an anti-metallist in general. sending his message from far-away India. In a work entitled Gold and Silver Weighed in the Balance, Calcutta, 1888, T. I. Pollard, who wants either money to be regulated in value or contracts to be regulated in money, so that a constant "value" shall always be repaid according to the standard by which people measure whether gold or silver has appreciated or depreciated (pp. 7-10, 55), rejects the "price-level" standard on the ground that all commodities may grow cheaper, or fall in "value," together, and therefore an average of the fall of their prices is no better as an indication of an opposite variation in the "value" of money, which may itself be falling or otherwise behaving, than an average time drawn from many incorrect watches would be of the correct time (pp. 25-32). He rejects it also because it implies that by "value" is meant merely the quantity of other commodities the thing will sell for, which is a meaning "never intended . . . by the founder of the science of values" (p. 34). Following Adam Smith, he means by "value" "the estimation in which people hold" the things, "the quantity of toil and trouble necessary to obtain possession of them, the quantity of labor they will purchase or command" (ib.); and as purchasing power, it is purchasing power, not over commodities, but over labor alone, that is "real value" (p.



ciation for the Advancement of Science, 53d Meeting, 1883, epitomized in the Report, London, 1884, p. 626:—labor the measure of the value of commodities; agricultural wages to be used; in England, 1850 to 1882, wages risen 50 %, therefore gold fallen in "value" 33½ %; little rise of prices, therefore other things also fallen in "value" with gold.

Hence not the price-level, but the wages-level is the measure of the "value" of money (p. 37). It is, of course, because of this conception of the meaning of the word "value," as esteem-value, that he holds that all commodities can rise or fall in "value" and so cannot form a constant standard of "value," and that he considers it absurd to say that all commodities together are constant in "value," since this is true only of exchangevalue proper, or purchasing power over commodities alone, which he pronounces a wrong definition of value" (pp. 39-40, 45, 64-5). He even recognizes that he is using "value" in the sense of "labor-value" instead of in the sense of "exchange-value" or "commodity-value" (p. 43); but why the former sense is the only proper sense, he has no reason to offer, except that it was so used by Adam Smith (cf. p. 52), whose use of "exchangeable value" is again passed by. He even admits that a measure of "exchange- or commodityvalue" is attainable: * but he declares it not enough. not what we want—why? because it is not the measure of "real value" (p. 60). Thus is the authority of Adam Smith buttressed by the little epithet "real." At all events. Mr. Pollard makes advance, in that he wants the standard to be, not merely the wages of one class of laborers, but the wages-level, an average (of some sort, here still leaving indefiniteness) of the wages in all kinds



^{*}And in a Note on p. 154 he quotes the following from Cairnes: "A general rate of wages is neither more nor less easy to conceive, neither more nor less absurd, than general prices." Cf. also pp. 67, 79.

[†]He once impugns the authority of Adam Smith by saying that the phrase about equal quantities of labor always being of equal value to the laborer is a figurative expression (p. 69n). Perhaps, then, Adam Smith's use of labor-cost as the "real price" and "real value" of things was also a figurative expression. Adam Smith, in fact, appears to have taken it from a highly figurative simile made by Turgot.

of employments, fifty or five hundred, the greater the number the better, excluding only fixed salaries, their fault being their fixedness (pp. 66-68). He even wants profits, or commercial incomes, to be included (p. 87), although he seems to think they of course follow the variations of wages (p. 89), and so speaks of the "wages and income-level" (pp. 77, 91, 103). Such a wages-level standard he considers "eternally just both to debtors and creditors," contending that during a period of progress and cheapening commodities the extra commodity-profits on the capital loaned by the creditors ought to go to them, and so let them "share in the general increase of prosperity which their capital and their inventions have largely brought about" (pp. 87-91).

Mr. Shadwell and Mr. Pollard are isolated supporters of the wages-level as the sole standard of "value," in anything like a serious and earnest manner. When Mr. Shadwell wrote, he stood almost alone. When Mr. Pollard wrote, there were few to sympathize with him. But within the last decade there has grown up a sentiment in favor of their position, and approving of a monetary system which should keep up the level of wages and let down the level of prices.* The motive for this new turn is opposition to bimetallism, and anxiety to defend the single gold standard at all hazards. The wages standard is not very plainly distinct from the cost-of-production standard, which had already been impressed into service; and so it was but natural for persons searching for all possible arguments



^{*}Without this conclusion about the need of a money stable in the "value" conceived of, Henry George adopted the standard that "things are valuable in proportion to the amount of exertion which they will command in exchange," and rejected the standard of cost of production, Science of political economy, New York, 1898, pp. 249, 253.

to slip also into the use of this standard. As they have not so much adopted, as merely used, this standard, in a subordinate manner, as an offset to the commodity standard, and generally in conjunction with the standard the authorities for which will presently call for our attention, we may reserve reference to their employment of it till the next Part.

§ 6. Meanwhile another school of political economy has been forming, which can by no means be described as composed of followers of Adam Smith, much less of Malthus, and which also does not advocate the wages standard, but which would seem to lead to the earnings standard, since it seeks constancy of money in esteemvalue, of which the criterion seems to be constancy of money-earnings. This is the Austrian school. The characteristic of this school is the effort to explain relative exchange-values by developing the theory of esteem-value, which it then sets up as the principal and essential kind of value, as value proper. Consequently it has a tendency to substitute this kind of value as the value intended in the old prescription about money being stable in value. The representative of this school may be sought in its founder. Carl Menger, and his views on our subject may be taken from his article on Money in the Handwörterbuch der Staatswissenschaften (Vol. III., Jena, 1892).

Professor Menger treats of exchange-value proper under the term "outer exchange-value," to which he opposes what he calls "inner exchange-value" or "inner value," which is easily seen to be what is here called esteem-value.* He now points out certain difficulties in



To contrast exchange-value and esteem-value as "outer value" and "inner value" (because exchange-value has reference always to other or

measuring variations in exchange-value proper; whence he concludes that such measurement is impossible (pp. 744-5). He even goes so far as to say that to make money stable in exchange-value it would be necessary to make all prices stationary (p. 749 b), notwithstanding he had already allowed the principle of compensation in opposite changes of prices, in the case of this kind of value (p. 748 a-b). He then concludes that it would be better to direct our efforts to the realizable object of obtaining a stable measure of inner value, or esteem-value. and to seek to make money stable in this kind of value (pp. 749-50). This, he thinks, would be a great gain. as it would then show that all changes of prices of goods are changes due to causes in them alone (p. 750 a). This is a weak argument for holding that money ought to be stable in esteem-value.

CHAPTER IV

FOLLOWERS OF RICARDO

§1. The principal followers of Ricardo were James Mill and J. R. McCulloch. Both followed their master in making the labor-costs of production not only the regulator of the relative values of commodities, but also the measure of their "values" through the course of time. Thus in his *Elements of Political Economy*,



outer things, while esteem-value has no such reference), is a tolerable use of language. But to call the one "outer exchange-value" is pleonastic, and to call the other "inner exchange-value" is continuing the old absurdity of Adam Smith, since esteem-value is not exchange-value at all.

first published in 1821, and revised in 1824,* James Mill, in spite of his telling us that "when we speak of the value of the precious metals, we mean the quantity of other things for which it will exchange" (p. 169). asserted that "the value of commodities is determined by the quantity of capital [=hoarded labor] and labor necessary to produce them," and that if a thing can be produced with half the quantity of capital and labor as before, its "value" falls by half (p. 75), without any reference to what happens to other things; and again. that if the material of money were "always produced under the same circumstances, that is, by the same quantity of immediate, and the same quantity of hoarded, labor, it would always be an accurate measure immediately of the value of all commodities produced under the same circumstances" (p. 109). very narrow limitation of the requisites in the standard of value; but the conception is of a standard, evidently, of cost-value, and whether it is better or worse than Ricardo's wider conception of stability of cost-value, need not concern us here.

§2. McCulloch did not attempt to be so precise in these details, not caring for the mode in which the labor is expended; † but he was more precise in other respects, and yet again more lax in that he altered his terminology from one work to another. In his *Principles of Political Economy*, Edinburgh, 1825, he showed originality by abandoning Adam Smith's division of "value," and giving a new one. Leaving out use-value, he divided "value" into "exchangeable value" and "real value" (p. 211), and so gave up the absurdity of



^{*}The references are to this second edition.

⁺P. 216 of the work next referred to.

classing the latter under the former. By "exchangeable value" he meant purchasing power; but continued the ambiguity of conceiving of this as power over labor as well as over commodities, and, like Adam Smith himself. sometimes spoke of it as power to purchase commodities and labor (p. 213), and sometimes as power to purchase commodities or labor (pp. 211, 219). The measure or standard of this kind of value he conceived of rightly up to a certain point; for he tells us that "no com-. modity can be constant or invariable in its exchangeable value, unless it will at all times exchange for, or purchase, the same quantity of all other commodities and of labor" (p. 213). This would be correct if the reference to labor were omitted. It would be correct also if it were not confined to a meaning which does not appear upon its face: for he immediately adds that the quantity of every other class of commodities must always be the same individually, instead of admitting compensation by substitution of more of one class for less of another. Apart from these errors, it is plain that McCulloch had a correct conception of stability of exchange-value, correctly designated by a term appropriate to it. now he rejects this measure or standard for the foolish reason that even if we had an article stable in this way. that is, stable in this kind of value, it would be "of no use whatever." because it would leave us in the dark concerning the causes that may be acting on it, and the counterbalancing causes acting on the other things (p. 214),* equally raising or depressing their "real values." which of course is something else, of which this standard does not pretend to be the measure, and which we



^{*}Repeated in Note on Value in his edition of Adam Smith, ed. of 1863, pp. 439-40.

are at liberty to ascertain in any other way we find proper.* What he wants, for any serious purpose, is solely the measure and standard of his second kind of value, which alone he regards as "real value." This he defines to be the value of a thing "in relation to the quantity of labor that has been expended in its appropriation or production, or that would be required for that purpose at the period when the investigation is made" [=the cost of reproduction] (p. 211). measure, and standard, of this, then, of course, is the quantity of labor expended upon appropriation or production. This labor, like Adam Smith, he conceives as the "price" which we pay for things, and says "it is plainly by the magnitude of the price so paid, and not by the magnitude of the things themselves, that their real value is to be estimated" (p. 217). And again. slightly altering Adam Smith's phrase, he maintains that the product, however large or small, of a given amount of labor is necessarily of the same "value" in the estimation of the producer (p. 218). borders upon the idea of esteem-value, to which he approaches on the next page, where he speaks of "the real value of a commodity, or the estimation in which it is held by its possessor." Yet at the same time he thinks this is to be measured, not by the quantity of labor the commodity will command, but "by the quantity of labor required to produce or obtain it" (p. 219).† Therefore.

^{*}In his Commercial dictionary, art. Prices, ed. of 1854, Vol. II. p. 1063, he objects to Tables of prices that they "may lead to the most unfounded conclusions" about the "cost or real value" of commodities. He thinks, however, a table of prices and wages is valuable as showing the people's command over the necessaries and conveniences of life.

^{*}Here he laid himself open to attack by those who held "real value" to be esteem-value, advantage of which was fully taken by Malthus in

like Ricardo, he propounds that "if any commodity required at all times the same quantity of labor, or of toil and trouble, for its production, it would be invariable in its real value" (p. 220). So much for his earliest work.

McCulloch's later works retain nearly the same ideas. but alter the phraseology, and so introduce confusion. In his Note on Value appended to his edition of the Wealth of Nations, he asserts that the term "value" should be used only in the sense of "exchangeable value" (p. 438b), still retained in the sense of the power of purchasing both commodities and (or or) labor (p. 439 a and b): and the division which he before made of "value" into "exchangeable value" and "real value" he now treats as a division between "value" and "cost" (p. 439a). Therefore what he before gave as the measure or standard of "exchangeable value" he now repeats merely as the measure or standard of "value" (p. 439 b); and what he before said about a commodity being invariable in "real value" if it were always produced by the same amount of labor, he now predicates of it as referring merely to "cost" (p. 442 a).* Yet he also admits the former phraseology, once speaking of "the cost, or as it has been sometimes termed, the real value of all things" (p. 441a), and, again dropping the epithet, uses "value" as synonymous with "cost." For he reiterates what he had before said about the product, no matter its quantity, of the same labor always being of the same "value" to the producers, and reaffirms the conclusion that the "value" of things is to be estimated by the price in labor they have cost (p.



his Definitions in political economy. McCulloch seems afterwards to have avoided repeating the above expression.

^{*}Compare also Principles, p. 219, with the Note, pp. 441b and 443-4.

441 b); and even goes so far as to say that he has been tracing "all permanent variations in the value of commodities not subject to any species of monopoly, to variations in the amount of labor required for their production" (pp. 443 a-b). Thus after distinguishing "value" from "cost," and saying that "value" should only be used in the sense of "exchangeable value," and so defining it, he reverts to using it in the sense of "cost," and to using the expression "real value" only in this sense. In 1858 he published an article on Money in the eighth edition of the Encyclopædia Britannica, which was republished in 1859 in the second edition of his Treatises and Essays. Here he again mentions the supposition of a commodity always produced by the same quantity of labor, and now says simply that "its value would be invariable" (p. 15). But this occurs under a heading in which the phrase "the exchangeable value of money" is used. Consequently, when in another part of this work he speaks of "invariability in value" as "the great desideratum in a currency" (p. 73), his meaning is not quite plain. The sequel seems to show that he meant by it merely the maintenance of the intrinsic value of metallic currency. But he had before placed "steadiness of value" among the reasons for adopting gold and silver themselves for money (pp. 5-6), and again had noticed the injury to contractants arising from a variation in the "value" of money not only in the case of a tampering with the currency, but in the case of a variation in "the cost of gold and silver" (pp. 55-6). Here, then, the desire is for invariability in what he always viewed as "real value." Yet again in the Note on Money, in his edition of the Wealth of Nations, he once speaks, in connection with contracts, of the fall in "value" of money which took place after the discovery of America. "as compared with the mass of commodities" (p. 484 a-b), seemingly referring to a fall in exchange-value as something worth measuring and as something undesirable in money.* But perhaps he cited this case in this way because it was not only a fall in the cost-value of money, but so great a fall in this value as to outstrip the falls in the cost-values of commodities and to become a fall of money also in exchange-value, wherefore it could doubly serve as a bad example of variation in "value." was really stability in cost-value which he desired, and not merely in exchange-value, which would admit a fall in the cost-value of money if only not greater than the average of the falls in cost-value of commodities in general, is evident from another passage in this Note (p. 498b), and from similar passages in other works written during the period of falling prices prior to the middle of the century.† These are passages which defend the metallic standard since its restoration in England by the Act of 1819. He admits to its opponents that the prices of most articles had fallen, whence they had concluded that the "value" of money had risen. This conclusion he will not accept, on the ground that the prices had fallen because of improved production in each and all of the articles in question. Thus while his opponents were contending that the exchange-value of



[&]quot;And in his Commercial dictionary, ed. of 1854, art. Money, he uses "comparative steadiness of value" as a requisite in money in the sense of steadiness (or at least of liability not to fall) in purchasing power, Vol. II. p. 865.

[†]Statistical account of the British Empire, London, 1839, Vol. II. p. 30; Commercial dictionary, arts. Bank of England, and Prices, (retained in the ed. of 1854, Vol. I. pp. 79-80, and Vol. II. p. 1057).

money had risen and that this rise was a bad thing, he would not accept either of these conclusions because it was not proved that the cost-value of money had risen. and it was the cost-value of money which alone he would take for the norm of what simply the "value" of money ought to be. This position is also in perfect accord with a passage in his earliest work, the Principles (p. 258), written before the general fall of prices had fairly set in. in which he distinguished between a fall in the price of an article due to its own improved production, and a fall in its price not due to such an improvement (and consequently, if permanent, due to a rise in the "real value" of money), asserting that while in the latter case "a part of the wealth of the producers" is "gratuitously transferred to the consumers." the former is "not disadvantageous to the producers." Thus what McCulloch wanted was what Ricardo had wanted, a money stable in cost-value, which, in a period of progress, would let prices fall. And yet after the discovery of the Californian and Australian gold mines. when the general downward tendency of prices had been arrested, and there was fear even of a rise of prices. some asserting that it had already set in, which would mean a fall of gold and silver in exchange-value as well as in cost-value, McCulloch still defended the gold standard. He now maintained that "no sufficient evidence has yet been, or we believe, can be produced, to show that the value of gold has fallen, or that prices have risen "*—in which passage he could certainly mean by "value" only the exchange-value of gold, and was defending the gold standard for its steadiness in exchange-value. He even went so far as to say that

^{*}Foot-note to his 1863 edition of the Wealth of nations, p. 96 b.

"if the precious metals should fall in value," since the prosperity of the industrial classes is "uniformly held to be identical with that of the community," "such fall will be publicly advantageous."* He here shows that his practical interest in wishing the currency of his country not to be disturbed rose above his theoretical interest in the fundamental principle of monetary science. It can hardly be inferred that his real theoretical opinion was altered.

§ 3. Beyond his two faithful disciples, one of whom even denied him in the last hour, Ricardo's influence is found principally in a general trend of economic thought, by no means consistent with itself; and there are not many instances to cite of strict devotion to his one idea. Even using the greatest care to select only those economists who maintain his doctrine consistently, we must admit some who, like McCulloch, occasionally swerve, or who fall into the same sort of confusion which Ricardo himself manifested. One or two, however, may be found who do not deviate, because, like James Mill, they treat the subject only casually, and a few more who are thoroughly concordant.

In Capital, Currency, and Banking, London, 1847, James Wilson, instead of saying that a material should be chosen for money which is stablest in "value," and then using "value" in a sense indicating cost-value, cut the matter short by simply saying that "in fixing upon any one commodity, as the common standard in relation to which the value of all others should be expressed and determined, for obvious reasons it was desirable to select



^{*}Ibid. p. 97a-b. Similarly the article in the Treatises, p. 49, and art. Money in Commercial dictionary, 1854, Vol. II. p. 866. He also refers to two others of his recent writings.

that which varied least in its cost of production" (p. 5).* Equal closeness to the original is also to be found even later, in the writings of Bonamy Price. This uncompromising author asserted: "A sale for money is an exchange of two equal costs of production, omitting rarity and other exceptional circumstances. . . . Gold and silver have been preferred [to serve as currency] on account of their convenience, and of their cost of production being supposed to be little liable to fluctuation;"† and declared it to be desirable that while all other articles should be cheapened and their prices fall, the money-material should not "become cheaper, and its cost of production less."

In America an early economist and moralist, Francis Wayland, in his *Elements of Political Economy*, New York, 1837, showed close adhesion to the form as well as to the spirit of Ricardo's teaching. Dividing "value" into "intrinsic value," or "the power which any particu-

^{*}Cf. also pp. 134 and 212, where the roundabout course was followed. In both these passages he used "intrinsic value" as cost-value (where Ricardo and others used "real value"). But on p. 14 he used it as exchange-value; and here it is fluctuation in exchange-value that is treated as an evil—but only a fall in exchange-value that would also be a fall in cost-value. On page 212 also there is added another requirement in the standard, namely invariable (relative) supply and demand; which makes it a standard either of exchange-value or of esteem-value.

[†]Principles of currency, London, 1869, pp. 66-7.

^{[1}bid. pp. 52-3, and similarly Currency and banking, London, 1876, p. 27. The only reason assigned is the trivial one that the money-pieces of the same value would become heavier. This reason does not apply against a rise in even the cost-value of money. In an article in the North American Review, Dec. 1879, he denied that labor can be a measure of value, because its value varies at different times and places, p. 575. Here he divides value into two kinds: primarily "the feeling of esteem," and secondarily "market value" or "the quantity of other things which the thing can procure for its owner," pp. 574-5.

lar substance possesses, of gratifying human desire." which is use-value decked in a term long ago appropriated to something else, but in this sense probably borrowed from Locke, and "exchangeable value," or "the power of procuring for us something else in exchange" (pp. 4-6), and confining his attention principally to the latter, he wanted money to be constant in "value" "in proportion to other values" (p. 215), that is, in exchange-value proper. But he held the Ricardian costof-production theory explanatory of relative exchangevalues (pp. 8, 179), and extended this into a measure of "value" and even of the "exchangeable value" of a single commodity through the course of time. says that "if the cost of the precious metals changes, their exchangeable value varies, like that of any other product" (p. 222), without reference to what is going on in the other products. Consequently he laid it down as one of the first requirements in the material to be selected as money, that "its cost, or, in other words, the amount of labor necessary to its production, must be as invariable as possible" (p. 216).*

Similar views have been held by a later American writer on economics. In his First Principles of Political

^{*}Wayland, however, elsewhere showed perfect acquaintance with the balancing of the cost of production of the money materials with the cost of production of commodities, and the effect of this upon the course of prices, pp. 222-3, 237-8. Yet he made no use of it to recommend such a parallelism as would keep prices steady, which he ought to have done if he wanted money to be stable in exchange-value proper, nor again to recommend a fall of prices to agree with progress in improving the production of commodities, as he ought to have done if he wanted money to be stable in cost-value. But we have his word for the latter desire. Perhaps he did not express it in connection with prices because of a feeling that this would jar with his definition of "exchangeable value."—The Ricardian element in Wayland's work is retained in A. L. Chapin's Recast of it, New York, 1883, pp. 293, 294.

Economy, Philadelphia, 1875, W. D. Wilson maintained the doctrine that the value of an article depends "upon the average cost (labor) of reproduction" (p. 254); and because he looked upon not merely labor but strength as a constant quantity, saying that average strength is nearly the same from age to age (p. 255), he concluded that "a constant standard of value" would be found in a commodity which is a constant product of the constants, average strength × time (p. 256).

Perhaps the most extreme follower of Ricardo, in the matter before us, is to be found in Spain. In his Tratado didactico de Economía politica, also entitled Filosofia del Interes personal, Madrid, 1865, Mariano Carreras confined the term "value" to the meaning of cost-value, regulating it entirely by the cost of production of the article (pp. 136-7, 163, 168, 202, 260, 324). and using for exchange-value the term "price" extended to the relation between anything and everything else (pp. 122, 229, 262-5, cf. 266-7). He therefore wanted money to be stable, not in "price" (exchangevalue), but in "value" (cost-value), that is, in cost of production (see p. 329), and recommended gold as better than silver for money not only because it is more mobile and elastic so that there is a more quickly restored equilibrium in its "price" (exchange-value) over the world, but because in the course of time there is less variation in the cost of its production, since its mines lie on the surface and are exploited always with about the same amount of labor, whereas the production of silver admits of the application of machinery and of improved processes, which lower its cost of production and consequently its value (p. 330, cf. pp. 342-3). The ideal he considered to be a "measure of prices,"

and he followed Roscher in requiring in it (1) stability of utility, and (2) stability of cost of production; for he viewed it as a measure which would show that all changes of the prices of goods are changes of their "value" (cost-value), and are not due to any change in the "value" (cost-value) of the measure itself (pp. 243-4). For long periods, he thought wheat the best measure of this kind (pp. 344-5).

In France a fairly strict Ricardian, in our subject. was Michel Chevalier. In the elaborate treatise on Money which forms the third volume of his Cours d' Economie politique, the second and revised edition of which appeared in 1866, Chevalier, although rejecting the labor standard and the wheat standard as absolute standards of value (pp. 97-117), yet spoke of gold and silver, like other things, as falling in value because their production is improving (pp. 92-3), and treated labor and wheat as more stable over long periods than anything else, because the labor of the lowest laborers remains about of the same productivity, and wheat is produced with less variation of labor-cost.—in other words, because in the lowest labor there has been little improvement in skill, and in wheat-raising there has been little improvement in the methods of production (pp. 118, 120-2).* Then, hypothetically, he supposed that the value of money would remain stationary if its cost of production were constant (p. 725):† and as he



^{*}This wheat standard coincides with this labor standard. The confinement of the labor standard to labor whose product is stationary is peculiar, and seems to have been taken from Bastiat, in whom we shall presently see a similar opinion.

[†]For this reason, before the Californian discoveries, he had thought gold more stable in value than silver, Les mines d'or et d'argent du nouveau-monde, Revue des deux Mondes, 1er avril 1847, p. 46; and even

held that progress consists in the improvement in the production of other commodities, this would lead to a general fall of prices (p. 727), which, therefore, he thought to be desirable, and also to be consistent with, and really caused by, the stability in "value" of money. His conception, and his doctrine, were evidently that money should be stable in cost-value, and not in exchange-value. The measurement of the purchasing power of money, as attempted, for instance, by Leber, he mentions merely as something curious and interesting (p. 125).*

Lately, in Italy, Professor A. Loria has shown himself almost as strict a follower of Ricardo as Carreras. In his Studii sul Valore della Moneta, Turin, 1891, he opened with a violent attack upon the quantity theory, and defense of the cost theory, of the value of money. In a recent article in the Reveu d'Economie politique, February 1902, entitled Des Méthodes proposées pour régulariser la Valeur de la Monnaie, he shows entire absorption in the conception of "value" as cost-value. Value, he dogmatically asserts, varies as cost of production (p. 109), and all goods can rise or fall together in "value," because of inherent changes in them, that is, in their costs of production (p. 111); which is true enough of "value" in the sense used by him. With equal unreserve he therefore asserts that "value" must

in 1854, art. Monnais in the Dictionnaire de l'Économie politique, Vol. II. pp. 205-6.

^{*}Yet in one passage in La baisse probable de l'or, 1859, he identified the probable fall in the value of money with a rise of prices, saying even that they are not merely connected facts, but form one fact, as the two sides of the same truth, p. 123. Still, in this work, p. 20, he showed the same idea as above, saying that the thing stable in value would vary in relation to commodities, because of changes in them, not of changes in itself.

be measured by variations in the cost of production of the article in question (p. 111), itself to be measured directly - at the least fertile source (p. 116). And he finds it strange that economists should have attempted to measure the cost of production, or value (in this sense), of money by averaging variations of prices (ibid.): which of course no economist ever yet attempted to do, the averaging of prices being intended for another Therefore, as a substitute for the scheme of regulating paper money so as always to be convertible in an equal quantity of commodities in general, or in a variable amount of metallic money so convertible, he offers as the proper way of making money invariable in "value" that paper money should be redeemable in an amount of metallic money inversely according to the cost of its production or importation (ibid.), or convertible in goods produced by a fixed quantity of labor (p. 124).

§4. Few other economists can be found who have maintained Ricardo's doctrine in all its purity.* But of



^{*}It is well known that the doctrine about value depending upon labor has pleased the socialists. Thus it was adopted by Karl Marx, who concluded that "the value of a commodity would therefore remain constant if the labor-time required for its production also remained constant," p. 7 of the English translation of Capital (1867), London. 1887. Vol. I. He used the term "value" (=cost-value) as distinct both from "use-value" and "exchange-value," pp. 3-5, treating the latter merely as a "form of value," p. 14, cf. p. 3 (cf. Rossi, below). Therefore he held, not only that a general fall of the "values" of all commodities could take place, and that this would mean constancy of their "relative values" (=exchange-values), p. 23, but that there could be a general fall of prices, resulting from improvements in the production of commodities. while money remained constant in "value" (there being no improvement in the production of its material), p. 71. But Marx does not call for notice in the body of this work, because he did not attach importance to money being stable in "value," on the ground that prices adjust themselves, pp. 70-71, and saw no defect in a change of price not marking the change of value, p. 75.

late years, as already noticed at the end of the preceding line of descent, there has been a tendency to make use of his principle for a particular practical purpose. Little scrupulosity, however, has been shown, and the doctrines of Ricardo and Adam Smith have been so much mixed with each other and with others, that we must postpone mentioning most of the revivalists until the next Part, where they may be treated together in the broad class of advocates of the labor standard. But there is one among the opponents of bimetallism, who has nearly confined himself to Ricardo's position. It may be interesting, then, to review his opinions here.

The author of one of the best of the many ephemeral writings called forth in reply to "Coin's Financial School," Edward Wisner, in Cash vs. Coin, Chicago, 1895, asserts that "nothing but human labor can create value" (p. 54), and "the value of any commodity rests upon its utility and is controlled by the amount of labor it takes to produce it" (p. 55, or to reproduce it, pp. 38. 40). This Ricardian measure of relative values is now, without Ricardo's flinching, applied to the value of a single thing through the course of time. Labor is declared to be the measure of value (p. 31); and it is maintained that "a money unit should represent as nearly as possible, continuously, a given amount of human labor or effort" (p. 39). Gold is praised for doing this most nearly, although it has the demerit of having declined in value somewhat of late (pp. 40, 95). For a day's labor will now buy more of almost everything, including gold, than it would forty years ago (p. 33), and less labor is required to produce not only a bushel of wheat, but a dollar's worth of wheat, so that all things are cheaper now (pp. 35, 90). If, how-

ever, prices had been kept up "temporarily"—there is no reason for this restriction—by cheapening money equally with commodities, this would not have been desirable, "even to avoid a panic," since a continuation of this process "would produce a much worse panic than we now have" (p. 39).—the reason for which presumably is that money would not then be properly fulfilling its function as the standard of "value." Satisfaction is also shown at the thought that the last half of our national debt will be paid off with more property. "of course." but with less labor, than the first half (p. 60). Mr. Wisner holds, as everybody would, that "when compared with human labor, things can never get too cheap,"* and that "the only way the human family can be benefited by the triumphs of science and art is by a decreased cost of the things it needs" (p. 42); but he takes prices as synonymous with costs.† and further conceives that "as prices, compared with human labor, decline, the condition of the people is elevated." and that this is "the process of natural law and a phase of evolution," against which it is useless for bimetallists to contend by trying to keep prices up (p. 66, cf. pp. 86-7).‡ It is evident that Mr. Wisner is dealing with cost-value, except where he once mentions the command of labor over commodities and money, when he strays momentarily into the field of esteem-value.

§ 5. Putting off notice of the rank and file of controversialists who have indifferently used either or both



^{*}He has, however, excepted gold.

[†]Yet he distinguishes between values and prices on p. 76.

Such a "process of natural law" would be observed if prices were stable and wages and profits rose; but this is not noticed.

of the standards based on labor, we may, before leaving this subject, mention one of the great economists who has been confused between the two. We shall presently find many of the foremost modern economists equally confused between these two, but adding confusion by admitting also the commodity standard. This one confused economist, at least, has nearly avoided the last incongruous element, and, almost entirely confining himself to the labor standard, has failed principally in not distinguishing between its two forms.

Bastiat, in his Harmonies économiques published after his death, in 1850,* treating "value" as service (p. 160). and the value of a thing as an "incorporated service" (p. 184), but also calling it a "relation" (pp. 162, 241, 253), regarded a measure of value as a measure of "the relation of effort to satisfaction," and concluded, rather strangely, that this measure can only be the effort itself, or labor (p. 174). Hereupon he conceived that the value of things is to be measured by (the inverse of) the quantity of them acquired in a given time by laborers who perform the lowest kind of labor, merely muscular and unaided. "raw labor" (le travail brut), which he took to be "identical with itself at all times and places" (p. 175, cf. p. 243). This, applied to money, would be a measure of its value by the wages only of the lowest labor, and so would be a measure, mangled by this confinement, of esteem-value. elsewhere he spoke of the "value" of all things falling with improved production, † and viewed this as the



^{*}And as Vol. VI. in his Ocuvres complètes, Paris, 1855, to which the references are made.

[†]In which case he recognized that the "relative values" (i.e. exchange-values) may be constant, p. 349.

inevitable and beneficent tendency of progress (pp. 182-4, 247, 261). And he said this also of "prices" (p. 199), which would mean that he supposed (and wanted)* money to be stable in cost-value.

CHAPTER V

ECONOMISTS CONFUSED BETWEEN A LABOR-VALUE AND EXCHANGE-VALUE

§1. The greatest among the early French economists of the nineteenth century was J. B. Say: and yet he was so confused on the subject before us that it is impossible to tell what his real opinion was. Say rightly modified Ricardo's cost-of-production-at-the-poorest-source theory of relative values by pointing out that the degree of poorness in the sources which will be worked is itself affected by the value of the article already determined by its supply and demand; † but at

^{*}Little evidence, however, is elsewhere given by Bastiat that he was clear to himself how he wanted money to behave. In Maudit argent, Vol. V. p. 88, he denied that money is a measure of value; but he seems to refer merely to actual money, and to its not being a good measure, because of its fluctuations. His idea of a piece of money as a bill of exchange upon society entitling its bearer to the payment at any time he demands it of a service equal to the service he rendered when he took it, Vol. V. pp. 80-1, VI. p. 209, implies that money ought to be stable in value, but might involve the commodity standard as well as, if not better than, the labor standard. In Vol. V. pp. 89-90 he speaks of the "depreciation" of paper money as manifesting itself by the nominal rise of prices, and complains that the laborers suffer because their wages do not rise till some time after. This is use of the commodity standard, and express denial of the labor standard.

[†]Traité d'économie politique, Paris, 5th ed. 1826 (the first was in 1803), Vol. I. p. 69, Vol. II. pp. 35, 171-2, Cours complet d'économie politique pratique, Brussels, 2d ed. 1840, p. 187b (the first was in 1828-9).

the same time he positively said that "the price of a thing in silver depends upon the relation found between the cost of production of silver and that of the thing" (Tr. II. p. 195). And although he despaired of any good measure of value, yet he held that the best we have is wheat, asserting that through the course of ages this has varied in value least for two reasons. reason is that the methods of producing it have been always at about the same stage of development, so that its cost of production has always been nearly the same over long periods. The other is that the demand for it has always extended in about the same proportion, over long periods, with the extension of its production, so that the relation between its demand and supply has been nearly constant.* Of these two, he apparently attached more importance to the first, as he recurs to it alone (Tr. II. pp. 196, 208), and tells us that through the course of time the "value" of money varies according to the cost of its production, without regard to the total quantity produced (Tr. II. p. 209), or that its variation may be determined by its variation in comparison with things which are stable in the cost of their production (C. pp. 186-187).† Such a variation he either mentions as a variation in "real value" (Tr. II. p. 196), or calls it a "real variation" in value, in distinction from a "relative variation" in the values of commodities compared with one another (Tr. II. p. 176). In another passage, in a summary at the end of the Traite (III. p.



^{*}Traité, Vol. II. pp. 94-5, 100, Cours, pp. 199-200. Notice that the reason assigned for the relative constancy of the demand and supply of wheat is the opposite of the reason given for this by Locke. It shows the influence of the Malthusian theory of population.

[†]In this last passage he again, however, pays attention to the demand and supply.

307), he made this distinction of "prices"; and elsewhere said that in the course of time things that can be produced only at greater labor-cost will rise in price without an inverse fall in the value of money (C. p. 205a).* And, contrariwise, as it is desirable that things in general should be produced with greater facility, he considered it to be well for a country that its prices should fall (Tr. II. p. 188, cf. p. 193).

Thus far, although there is a partial divergence: from Ricardo in the theory of relative values, there is almost perfect agreement with Ricardo in the conception of the measure of value through the course of time. Yet this agreement is not justified by the primary conceptions established by Say, and is frequently repudiated by him in the clearest terms. Say confined the term "value" to "exchangeable value" (C. p. 33b), rejecting use-value as a mere synonym for utility.† He defined "value" as the quantity of everything else obtainable in exchange for it. I and said that the "value" of a thing is measured by the quantity of other things it will exchange for, rising if it will purchase more, and falling if it will purchase less, || and of money itself that its "value" varies inversely with variations in general prices (Oeuvres, p. 51), and in general that "the



^{*}And reversely of things falling in price because of cheaper production, without affecting the "value" of money, in a letter to Mr. James, published in the Morning Chronicle, Aug. 21st 1823, and quoted by Tooke, Thoughts and details on the high and low prices of the last thirty years, London, 1823, p. 180.

[†]In a letter to Ricardo, 1821, published in his Ocuvres diverses, Paris, 1848, p. 419.

[†] Traité, Vol. II. p. 156, cf. Vol. l. p. 3, Vol. II. p. 154, Vol. III. p. 328; Cours, p. 34 b, 180 a-b.

[|] Cours, pp. 34-35, Courres, p. 47 (this being in his Catéchisme d'économie politique, first published in 1817).

idea of the value of an object always supposes some relation with the value of another object" (C. p. 34b). Thus by "value" he avowedly meant exchange-value proper. Even the language he used in finding fault with the idea of any "measure of value" shows that he did so merely because he found impossibility in measuring general exchange-value by means of the varying quantities of all other things.* Here is a position entirely distinct from Ricardo's, and in Ricardo's Principles occurs a passage in which an argument of some length is directed against Say's conception of wealth and of value as being measured, not by the cost of production of the thing, but merely by the quantity of other things purchasable.† And Say himself, in a letter to Ricardo, accepted this interpretation of his doctrine, and rejected cost of production as a measure of the utility which in his opinion constitutes value (Oeuvres. p. 419).

Therefore when Say asserted, with almost all economists, that stability of value is one of the requirements in money, it is impossible to tell what he meant. To be sure, there was a similar inconsistency in Ricardo's own teaching; but in Ricardo's the use of "value" as cost-value predominated. In Say's words it is impossible to tell which idea prevailed. He thought money had been depreciating, since the discovery of America, in "real value," thus distinguishing a kind of value from the exchange-value to which he had said political economy is confined, or perhaps, like others, making this a sub-class under exchangeable value.



^{*}Cf. Traité, Vol. II. pp. 87, 89, Cours, p. 34b, Oeuvres, p. 49n.

[†]Ricardo's Works, pp. 169-71.

¹ Cours, pp. 176a, 177a, 190b.

But there is no especial assertion that he wanted money to be invariable in such real value rather than in exchange-value proper, or "nominal value" (but extended from particular to general), unless this is to be gathered from the epithets applied to them. In one of the passages expressing desire for invariability in the "value" of money, there is, indeed, reference to the quantity of things purchasable,* which would make him have exchange-value proper in mind. But in presence of his longer disquisitions about the fall in value of silver (=money) since the discovery of America, in which he meant its fall in cost-value, this one passage is not enough to allow us to decide that what he wanted was invariability in exchange-value.

Doubt as to the intention is also occasioned, for a different reason, by the leader of modern economics in Spain, Alvaro Florez Estrada. In his Curso de Economía politica. 1828,† Estrada clearly distinguished value into cost-value under the names of "natural," "real," or "necessary value," and exchange-value under the names of "venal" or "conventional value" or "value in exchange" (pp. 13, 49). "Real value" he identified with cost of production (pp. 14, 15, 19), on the principle that a day's labor is an equal sacrifice without regard to skill, wherefore the product is of equal value without regard to quantity (p. 15). And "venal value" he defined as purchasing power over products or labor (p. 20). He perceived that "for a thing to have an invariable venal value it would be necessary that it should always purchase the same quantity of products

^{*} Cours, p. 190b; cf. also p. 176a.

[†]References are to the sixth edition, Madrid, 1848. Vol. II.

I And so of the "conventional value of money," p. 55.

or of labor" (p. 22). He also held in an extreme degree the Ricardian theory that relative (exchange-) values are regulated, permanently, by the costs of production of the things exchanged (pp. 17, 37); and thence concluded that an article produced by an equal duration of labor would have "an invariable value" (p. 17), and expressly rejected Adam Smith's wages standard (p. 18). It is evident, however, that he is here referring to "real value," that is, to cost-value. Now he wants invariability of "value" in money (p. 159), or the greatest approach thereto (p. 160). the difficulty for us is that, having two kinds of value. he never tells us which kind it is he wants money to be stable in. From his applying the term "real value" to cost-value we might infer that he wanted stability in this kind especially. Yet he said that to know the "value" of money in antiquity it would be necessary to know its quantity and that of goods and the quantities of these given for it in exchange (p. 62); and in his Reflexiones acerca del mal extraordinario que en el dia aflige a la Inglaterra, etc., London, 1827, he had likewise treated of value in the sense of exchange-value as the important element to be considered in money (especially pp. 12, 23).

§2. Say's statement that wheat is the best standard of value both because its cost of production is the stablest and because its demand and supply are relatively the most uniform, calls for some attention; for, while the former of these reasons is a requirement for stability of cost-value, the latter, as we have already noticed, is a requirement for stability of esteem-value, and so the two are different things. Indeed, we have also seen that in the latter there is another double

entendre, since it may be a requirement either for stability of esteem-value, as just said, or for stability of exchange-value, according as the term "demand" is used as meaning intensity of desire in those who bid for the thing, or as meaning the quantity of other things offered by them in exchange for it. Thus we have in this one passage of Say's the union not only of costvalue and esteem-value, but of these and exchangevalue. But Sav does not stand alone here. In economic reading we frequently meet with a statement like the following, made by an early American economic historian: "For an absolute standard of value, we should have to find something, the cost of production of which should be the same at all times, and in all places, and the demand and supply of which should never vary in the smallest degree."* Now, in such statements there is a combination both of Ricardo's and of Adam Smith's. or rather of Locke's, doctrines of value, not to speak of the third permeating conception of exchange-value proper. The two, let alone the third, are by no means consistent elements. For even though the cost of production remain the same, the quantity may not be supplied sufficiently to keep the demand from raising the esteem-value of the article. The strict holder of the Ricardian doctrine† should maintain, with Say in one passage (Tr. II. p. 209), and with McCulloch, that "value" is according to the cost of production of the article without any regard to the quantity of it supplied: although, as Say elsewhere implied, and as McCulloch



^{*}W. M. Gouge, An inquiry into the principles of the American banking system, prefixed to his Short history of paper-money and banking (1833), 2d. ed., New York, 1835, p. 10a.

[†]Ricardo's Works, p. 213.

INotes to Wealth of nations, 1863, pp. 98-9n, 481.

at the same time said, this is so only of non-monopolized industries, or of things suppliable in unlimited quantities, which reverts to saying that the quantity supplied is of consequence. Hence it is not strange that the author above cited should have added: "It is impossible even to fancy such a thing;" and that others should assign the union of these two qualities as a reason why an invariable standard is impossible. And if the demand and supply are to be constant also in such a way as to keep constant the thing's exchangevalue, the reason is increased for regarding the invariable standard as impossible. But of course it is not good logic, in order to show that a thing is impossible. first intentionally to put incompatible requirements into the conception of it. The only reason for maintaining these incompatible requirements is that they are all requirements for the stability of the "value" of an article. But the moment we recognize that value is of several kinds, we see that these are requirements of the different kinds of value, and so no longer deserve to be placed together. To be sure, the holders of the cost-of-production theory have always admitted the demand-andsupply theory for fluctuations in "value" over short periods (over which periods presumably all the kinds of value fluctuate together). They may, then, add this requirement of equable supply and demand to the requirement of constant cost of production, in order that, while the latter provides constancy of value over long periods, the former shall fill in constancy of value over the constituent short periods.* But this is not done by



^{*}This seems to have been done by F. Bowen in his Minority report on the silver question, 1877, republished in his Gleanings from a literary life, New York, 1880, p. 45; but was not done by the same author in his Principles of political economy, 1856, p. 290.

the greater number of economists who have employed these two elements: for they have generally employed them both as applying to wheat, and expressly only over long periods, admitting that supply and demand in the case of wheat are not well balanced over short periods. Again, the demand-and-supply doctrine may mean that the demand and supply are so proportioned as to keep the article's exchange-value at its cost-value (which then is supposed to be constant). But this they expect always, in the long run, to happen in the case of all articles suppliable in unlimited quantities, to which the theory is confined. Thus in every light it is viewed in, there is no good reason for uniting the requirement of equable supply and demand to the requirement of constant cost of production. The latter alone is the sole requirement for constancy of cost-value. To add the other is to add a requirement either for constancy of esteem-value or for constancy of exchange-value, which need not in either case fit with the other requirement.

§ 3. Returning from this digression, we find that almost the same ambiguities as Say's are to be found in the views of the leading German economist, Roscher. Roscher divided "economic value" into "use-value," "cost-value," and "exchange-value" (§§ 4-5).* Possessed of this terminology, we might expect from him something definite. Indeed, in two passages, he speaks of exchange-value as if it were the value of which he desires the stability in money (§§ 120, 123). But there is a Section of his work devoted, not to the measure of value in either of its kinds, but to the "measure of price," meaning here by "price" some general kind

^{*}Of his Grundlagen der Nationalökonomie, 10th ed. Stuttgart, 1873 (the first edition was in 1854).

of value, although the only definition he ever gave of "price" (in § 100) was of a particular exchangevalue, that is, of the exchange-value of a thing in some particular other kind of thing. Now, he tells us that if we mean by such a measure a "constant purchasing power." this is impossible (§ 127). Instead of this, he would set up the conception of a commodity "on which the inner, from itself arising, elements of price-determination always exert a uniform influence." and which could therefore serve for indicating that changes in exchange-value of other things relatively to it are due to causes residing in them and not in it—that they. and not it, are becoming cheaper or dearer. And he thought that in such a commodity would belong "two conditions: (1) that for the same number of men the same quantity of it should under all circumstances have the same use-value, (2) that this same quantity should under all circumstances require the same cost of production, so that its supply could always advance equally with the number of those who want it" (ibid.). Here again is a mixture in one proposition of the requirements for constancy in esteem-value and in cost-value. And yet we cannot be sure that even this was the quality in money wanted by him. He proceeds to reject both Adam Smith's and Ricardo's standards of value, though treating them rather as theories of relative exchange-values (§ 128); and then states that a "constant measure of price" would be the general level of all prices, and only finds fault with it for its impracticability (§ 129). In this price-level he would include the price of labor, or wages, and give a prominent place to it, for a reason very much like Senior's, but not to the exclusion of the prices of material things. And as

something practicable he seems to wind up by preferring a standard composed of wheat, or the principal food, and "the precious metal" (ibid.). To repeat, in this his principal work he does not explain in what value he wants money to be stable. But in a small paper on the bimetallic question, published in 1872, he says gold would be preferable to silver if it were subject to less "variations of price," because, as money is a measure, "the chief requirement in good money is the least possible variability of its own value."* Here the word "price," used of the money metal itself, has no particular meaning, since he does not tell us in what object the exchange-value of money is referred to. If by it he meant to refer to all things, he would have meant by it the general exchange-value of money. But when in the next sentence he avoids use of the full term "exchange-value" and speaks of "its own value." in money, he seems to have in mind reference to the "inner, from itself arising, elements of pricedetermination" before given as the quality in a commodity having a constancy by relation to which the variations of other things could be measured, a constancy which we have seen to be of esteem-value or of cost-value. What was Roscher's real opinion, therefore, seems to be unfathomable.

Another leader of German economics showed no such indecision, but variation of opinion, within the same covers. In his *Volkswirthschaftslehre*, 1868, Rau objected to confining "value" to exchange-value, and employed "concrete use-value" for esteem-value in distinction from "general use-value" as use-value proper (§§ 57-58, 64). But he said that money ought always

^{*}Betrachtungen über die Währungsfrage, Berlin, 1872, p. 14.



to retain the same "price" in relation to the whole of other goods (§ 174, cf. § 177); which can only mean that money ought to be stable in general exchange-value. He then spoilt this conception by adding that in measuring the variations of money by other goods we should seek to eliminate the causes of changes residing in the goods, and should therefore confine ourselves to articles the least exposed to such causes (§ 175). And yet, after rejecting Ricardo's labor-cost standard (§ 181) and the wheat standard (§ 182), he again returned to, and casually adopted, the labor-cost standard for money (§ 260).

Doubleness of statement is also to be found in the Traité d'Économie politique of Joseph Garnier, first published in 1848.* By "value" this author said only "exchange-value" is meant (§ 373), and he defined it as purchasing power.† He also frequently employed the conception of the commodity standard, judging of the "value" of a thing by the quantity of other things it will exchange for, I or inversely by the prices of things (§§ 410, 440). Now he wanted for money the material the most stable in "value" (cf. § 444), and we might infer he meant the most stable in exchange-value. But he also asserted that progress consists in a general fall of "values" (§ 384), which use of the term "value" can refer only to cost-value or esteem-value. And he even went so far as to say that progress consists in a general fall of "prices" (§§ 66, 409°, cf. § 819), provided wages



^{*}References are to the ninth edition, Paris, 1889.

^{†§§ 13, 412, 432;} in § 430 this definition is applied to "relative "alue"

^{155 390, 406, 411;} in the last he says this of Malthus's "intrinsic value in exchange"!

do not fall (§ 763), which means a rise in the exchange-value of money.

An eminent author whom we still have with us made his first important contribution to economics and statistics during the period contemporary with the economists whose works we have been reviewing. In La Question de l'Or. published in 1858. Professor Levasseur would determine the problem which of two things changing relatively to each other is rising or falling in value or is stationary, not by reference to their costs of production. but by reference to all other commodities, asserting that all commodities cannot rise or fall in value together (pp. 138, 158). He therefore devoted much statistical labor to discover what had recently been the movement of the general level of prices in France (pp. 179-195), doing so evidently for the purpose of finding the change in the value of money: for he said the value of money varies inversely as the prices of all commodities (p. 138). Yet at the very commencement of the work he showed his conception of a commodity constant in value to be of one "which always costs the same effort to produce, and which is always equally desired, and equally ready to satisfy the needs of man" (p. 2)—the old mixture of the requirements for stability of cost-value and of esteem-value. He there also said that, though they are not perfect standards of value, labor and wheat are the best we have, even saying that "Adam Smith and Chevalier have proved this" (pp. 2-3).* Also towards the end of the work he asserted that gold is more stable in value than silver because gold is produced with ordinary unskilled labor, little subject to improvement.



^{*}He had himself used the wheat standard in Une méthode pour mesurer la valeur de l'argent, Journal des Économistes, May 1856.

while silver is produced in conjunction with other metals from which it has to be separated by chemical processes, which admit of greater improvement in the advance of science, thus allowing for much variation in the cost of producing it (pp. 332-3). This is Ricardo's cost-of-production standard of "value," which is the standard only of cost-value.*

Another great French economist, belonging to the empirical school. Paul Leroy-Beaulieu, who has recently summed up the studies of a lifetime in a monumental work. Traité théorique et pratique d'Économie politique. Paris, 1895, has not succeeded, in our subject, in giving us consistent instruction. Mostly, and in the more theoretical parts of the work, Professor Leroy-Beaulieu treats of the "value" of money as its exchange-value. defining it so, and saying that it varies inversely as prices.† Consequently, rejecting the labor standard as well as the wheat standard (p. 92), he recommends the tabular standard of index - numbers as the proper method of measuring variations in the value of money. I In long contracts he thinks it well to keep steady, not the social power, but the purchasing power, of the debt (p. 346). He even looks with favor upon the scheme (Lowe's) of paying debts in sums of money varying so as to represent the same exchange-value, according to the indications yielded by the tabular standard (pp. 120,

^{*}Similarly he later approves of gradually falling prices on the ground that cheapness is the result of most of the improvements introduced by science, and that, after all, the principal object of interest is not value, but wealth, in *Compte Rendu* du Congrès monétaire international tenu à Paris 1889, Paris, 1890, pp. 90-1.

tVol. III. pp. 146, 147, cf. pp. 204-6, 220, 222. The references are all to this volume.

¹Pp. 93, 233-6, 345-8; but with the inclusion of the wages of common labor, agricultural and artisan, pp. 93, 235n, 320, 348.

345-9). And yet, coming to the then obtrusive practical question of the gold and silver standards, or bimetallism, he defended the gold standard as having during late years shown itself normal (pp. 322-3), because it is a great law of progress that the prices of products should fall while the wages of labor rise (pp. 314-15).* This great law of progress is what we have seen in Garnier—the fall of prices in accompaniment with the fall in the costs of production, in the cost-values, of the products;† which means that money is desired to remain stable in cost-value.

Somewhat similar to Garnier's is also the inconsistency in the work of the Spanish economist Madrazo. In his Lecciones de Economía politica, Madrid, 1874-6. Madrazo asserts that economists have come to agreement in confining, and he himself confines, the term "value" to the meaning of exchange-value (Vol. I. p. 108): and as measure of it he rejects gold and silver (pp. 118-19), wheat (p. 119), and also labor, or the value of labor (pp. 119-120). Treating it as exchangevalue, he recognizes that all values cannot rise or fall together (pp. 117, 134-5). But he immediately adds that values (he is speaking generally) have a tendency towards falling, through improvements in production. although things that are due to the limited forces of nature have not this tendency in so great a degree as other things (p. 117). And, again, he says that prices tend to fall because costs tend to fall (p. 135), and seems to approve. Then, in treating of money, he says



[&]quot;He does not mean that in the tabular standard itself the rise of wages has offset the fall of prices; for he assigns very small weight to wages, at most twice that of wheat alone.

[†]Yet he speaks of the period 1851-70, when prices were rising, as the most progressive period ever known, p. 207.

that the variations of its value are regulated by the difficulties of acquisition, and that these difficulties are directly as demand and inversely as supply (Vol. II. p. 452); which would seem to place the invariability of its value in both the conditions of constant difficulty of acquisition and of a constant relation between demand and supply, wrongly brought together in a causal relationship. When these are separated, as in a period of progress in regard to commodities, including, say, silver, so that the relation between its demand and supply is constant, but without progress in the mining of gold, so that the difficulty of acquiring it is constant, we have no indication as to which of these two metals he would prefer for money.

§4. Confusion, again occasioning in us inability to find the real opinion intended, appears in the work of John Stuart Mill, and from him passes into the works of his followers. In his *Principles of Political Economy*, first published in 1848,* Mill said that in this science the term "value" means only "exchange value" (I. p. 538), declared his intention to use it only in this sense (*ibid.* and II. p. 12), and defined it as "general power of purchasing," or "command over purchasable commodities in general" (I. p. 538).† Accordingly he said "the value of one thing must always be understood relatively to some other thing, or to things in general" (I. p. 565), and recognized that "values" cannot all rise or fall together (I. pp. 510, 565, 572, 588). But at the

^{*}References are to the eighth edition, London, 1878.

[†]He even speaks of value as meaning "the quantity of other things which can be obtained in exchange for" the thing in question, Vol. I. pp. 565, 588, or even as being "what it will exchange for," Vol. II. p. 11. However inaccurate, these are definitions of "value" only in the sense of exchange-value.

very beginning of his inquiry into the nature of "value" he committed the mistake of considering all measurement of variation in the "general exchange-value" of a thing, by combining and averaging the different variations of its particular exchange-values, to be impossible (I. pp. 538-9). He therefore distinguished between a variation in general exchange-value due to causes in the thing itself, and a variation in its general exchangevalue due to causes in the particular objects with which it is exchanged; and because of the difficulty, or impossibility, of measuring the latter, he said he would treat only of the former, which is measurable because in this case the commodity in question would vary equally in comparison with all the rest, they being supposed unchanged amongst themselves (I. pp. 539-40). In doing this, like Malthus, he unnecessarily gave up examining some of the causes of the variations of the value of a thing, and so exposed himself from the very start to error due to incompleteness. When he came to deal with the value of money, this source of error began to tell. He still says "the value of money is what money will exchange for; the purchasing power of money" (II. p. 11), and contrasts it with prices, telling us that the value of money varies inversely as "general prices" Then on coming to treat of money as a (ibid.).* "Measure of Value," in the sense of a standard of value through the course of time, he again repeats that because of the different variations of its particular exchange-values, "we cannot even suppose any state of circumstances in which it would be true" that money. or any other commodity, may retain always "the same



^{*}Similarly Vol. I. p. 541, Vol. II. pp. 15, 301. In Vol. I. p. 86 "a general and permanent rise of prices" is called "depreciation of money."

exchange-value, the same general purchasing power" (II. p. 103). Variations in the value of money he then wishes to measure, as at the beginning, only if they come from itself, not if caused by variations in commodities. He is still clear enough in his ideas to distinguish the "measure of cost of production" from the "measure of exchange-value," and to recognize that "a commodity universally produced by the same quantity of labor" (with some further qualifications) would not necessarily be constant in exchange-value. But such a commodity he thinks would be of service, because by it we could measure changes in cost of production of other things directly by the changes of their exchange-values in it. And "this measure of cost," he now says, "is what political economists have generally meant by a measure of value" (II. pp. 103-4).* He thus himself seems to accept this as a measure, not of exchangevalue, but of "value." But of what kind of value?† In the same passage he said of the commodity so conceived: "We should then have a commodity always produced under one and the same combination of all the circumstances which affect permanent value." He seems, then, to take it as the measure of "permanent value." This kind of value, so determined, is costvalue, as he himself once calls it (I. p. 588). Now, he tells us that gold and silver are the best materials for money because they are the least variable in "value" (II. pp. 6, 78), and the first reason he assigns is that



^{*}The amount of truth in this statement may be judged from the preceding survey, and from what follows in Chapter VII.

[†]Not of esteem-value, for on the next page he said that labor is variable in "value" with its varying command over commodities. He thus excluded himself from using the wages standard, or earnings standard in general.

they are the least variable in cost of production (II. p. 6). As is well known, Mill held the cost-of-production theory of relative values for long periods, but for short periods ascribed much influence over "temporary or market value" to supply and demand, and even, especially in the case of the money metals, admitted that the influence of cost of production is exerted only through its effect upon supply (II. pp. 27-30, cf. pp. 12-22, 51). But in all the passages treating of this subject he omitted to speak of comparative costs, or the relation between the cost of the precious metals and the costs of other commodities in general (because of his pre-determination to suppose these latter stationary);* and so he seems to have fallen momentarily into the idea that the "permanent or natural value" of the precious metals varied only with the absolute variations in their costs of production.† notwithstanding that such "permanent or natural value" is, like the "temporary or market value" with which it is contrasted, only a variety of exchange-value, and is so treated by himself. Yet he rightly said, following Malthus, that we ought to distinguish between "the regulator, or determining principle, of value" and "the measure of value" (II. pp. 105-6). This is precisely what he himself did not do

[•]In Vol. II. pp. 13 and 16 he appears to do so, but only in the simple case of supposing that all commodities change alike.

[†]So also of "the permanent values of all things" in Vol. II. p. 270, although he there recognized that with general progress exchange-values do not fall. He there also, pp. 270-1, recognized that prices need not fall, if the improvement in production extend equally to the money metal (cf. also pp. 301-2). But he expressed no opinion whether wanted the money metal so to fall in cost and be steady in exchange-value, or to be steady in cost and in "permanent value," and therefore to rise in exchange-value.

In the "Summary of the Theory of Value," Vol. I. pp. 588-591.

in treating the "measure of cost" as the "measure of value." Still, we have his other statements about the "value" of money varying inversely as "general prices." and even in one passage we find him so treating the "permanent value of money." identifying it merely with "the natural and average prices of commodities" (II. p. 51), instead of abandoning it to the fluctuations of their market prices. And in a couple of passages we find him arguing against Hume's recommendation of money increasing in quantity so much as to cause a general rise of prices (II. pp. 15, 87), as if he thought that a constancy of prices was the proper thing, although viewing a general rise of prices as of no consequence "apart from existing contracts" (I. p. 541). A bold execete would be be, therefore, who should definitely assert that what was really desired in money by Millthe man who thought the theory of value complete (I. p. 537), and who feared to say more lest he should leave nothing for the reader to do (I. p. 593)—was stability in cost-value or stability in exchange-value.

In America Francis Bowen, who in his *Principles of Political Economy*, Boston, 1856, accepted Mill's doctrines about the cost-of-production theory of relative values and the disturbing influence of demand and supply especially in the case of money (p. 402),* borrowed from Mill also his confusion. Bowen confined the term "value" to "exchangeable value" (p. 33), and, identifying "real value" with "real selling price," defined



^{*}For the cost-of-production theory applied to relative values see pp. 45, 47, etc. On p. 41 it is said: "The labor required is a measure of the value produced." This, which is applied only to relative values, is immediately spoilt by the addition of a measurement of the labor itself by "its comparative efficiency," which is the same as measuring it by the value of its products, and so runs in a circle.

it as "the amount of the necessaries, conveniences, or amusements of life that can be obtained in exchange" for the thing (p. 292); and treated a change in salaries and wages as only "nominal" unless accompanied by a change in their purchasing power over "necessaries and comforts" (ibid.), thus viewing this change alone as a real one. Holding also that the most important quality of money is "its stability of value" (p. 303).* he devoted some attention to the standard of value for different times. Wheat he pronounced a better standard than our current money, both because its cost of production is stabler, and because its supply is better proportioned to the demand (p. 290),—thus, like so many others. mixing up two distinct reasons.† A still better standard he thought to be found "by taking the average prices of a dozen of the most necessary articles in common use" (p. 290), the principle being to select "certain leading commodities, which are in uniform and perpetual demand" (p. 395). Even in this multiple standard the idea is that the value of money is to be measured, not so much by comparison with all goods, or with the greatest number possible, but by comparison only with those which are more likely than it to be stable in value; which means a conception of "value" other than of exchange-value proper, and, as the reasons assigned for the wheat standard show, a conception which is a composite of cost-value and esteem-value. I



^{*}Cf. also in the Minority report, in Gleanings, pp. 52-4.

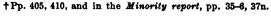
[†]On p. 393 he used only the cost-of-production reason, and imitated Mill in applying it to "permanent or average value," but not in speaking of this as depending upon "the average cost of production," and especially not in saying: "A tolerably accurate measure of this cost, so long as the demand remains the same, is the quantity annually produced."

[‡]For different places he found the best standard in "the value of an

· But now again the original idea of "value" as exchange-value comes into prominence. Bowen wrote at a time when a general rise of prices and "depreciation" of money was expected, on account of the recent greatly extended production of gold. In dealing with this subject he everywhere identified a variation in the "value" of money with an inverse variation of prices.* and measured its depreciation entirely by the rise of prices. or by the fall of its purchasing power over commodities (p. 407); and whatever evil he anticipated, he placed in this lessened purchasing power, over commodities, of fixed incomes (p. 406). He did, however. depart from Mill and return to Hume in not only not minding, but even in welcoming, the impending slight and gradual depreciation of money and rise of prices. due to natural causes (pp. 412-16, 423); which position, though a slight deflection from the stable standard of exchange-value, was, in a period of progress such as that in which he wrote, a considerable deviation from the stable standard of cost-value or of esteem-value. Thus, in general, Bowen's standard was of exchangevalue, though he lapsed at times into treating the desirable feature in money as if it were stability in cost-value and esteem-value.

Another American writer may also be cited for showing similar confusion. C. A. Mann in his Paper Money, the Root of Evil, New York, 1872, regarding stability of value as the fundamental quality of money (pp. 157, 258), identified "value" with purchasing power (pp. 8, 156), recognizing also that all values cannot advance

^{*}Pp. 298, 396, 402, 406; in the last of the "relative value" of money.





ordinary day's labor of a person of average strength and health," at the same time allowing this to be very inexact, p. 291.

together (p. 8). He wanted debts to be paid "with money of the same value as that in which they were contracted" (p. 294), and, this quality failing, to be adjusted "according to the value or purchasing power of the money in which they were contracted" (p. 350). viewing any increase in the value or purchasing power of money as a tax upon the debtor, or rather confiscation of his property, since "he must part with a greater quantity of commodities or property in order to realize the means of payment," as, reversely, when the purchasing power of money decreases, the creditor is taxed or robbed (pp. 195-6). He admitted, indeed, that during the recent years of contraction improvements in farming "have offset in part the evil effects of the currency:" but maintained that this fact "does not palliate the wrong. The currency deprives the agricultural class. of the increased welfare the use of machinery would naturally bring" (p. 208). All this points unmistakably to exchange-value being the kind of value in which he desired stability of money. But the whole is spoilt by the wrong use of a doubtful theory of value. held that "the permanent value" of the precious metals. like that of everything else, depends principally on the cost of production, and that gold and silver vary little in such value because their cost of production varies little (pp. 6, 12). The "permanent value" thus admired in metallic money is cost-value.

In England Henry Fawcett likewise showed preponderating preference for the idea that money ought to be stable in exchange-value, with lapsing into another idea. In his *Manual of Political Economy*, first published in 1863,* the term "value" is said to be confined



^{*} References are to the sixth edition, London, 1883.

to "exchange-value" (p. 347), and to be "estimated by the power which a commodity has to obtain commodities in exchange for it" (p. 358), and in the case of money is identified with its "purchasing power" (pp. 462. 509). The author discloses a well-defined conception of "general exchange value," and acquaintance with the law that there cannot be "a general rise or fall in the value of all commodities" (p. 312). He declares simply that the "value" of money ought to be as stable as possible (pp. 349-50, 351, 479); and that by this he meant its purchasing power, is further indicated by his saying that "a general rise or fall in prices means that the standard of value is altered," and that it is "of great importance that general prices, or, in other words, the value of gold, should fluctuate as little as possible" (p. 409).* Had Fawcett confined himself to these statements, he would have had to be put among the economists who simply favor stability of money in exchangevalue. But unfortunately, in one passage, he found fault with the test by "comparison of general prices" not only because of the practical difficulty of working it. but also for the reason that it does not take account of the causes of the price changes: and he would have us "make allowance" for such causes (pp. 480-1). occurs in a Chapter on the Gold Discoveries in the 50ties, and is immediately followed by passages in which the increased production of gold is said to have coincided with a "new era" in industry and commerce, so that the fall in the "value" of gold was retarded, and reduced to



^{*}Similarly on p. 370, where it is said that a "general decline in prices" due to the quantity of money not keeping up with the increase of population and wealth, "is quite as undesirable as a general rise in prices."

very small amount, by the increased commodity demand for gold: whereas if that increase in the gold supply had not taken place, the "value" of gold must inevitably have greatly risen (pp. 483-4). — which is a return to the conception of exchange-value. Yet, again, in speaking of the "decline in general prices" which took place between 1873 and 1883, the date of the last edition during the author's lifetime, he would not allow that this decline, although stated at a considerable figure, indicated any marked rise in the "value" of gold. because of the inconclusiveness before alluded to of such a test (pp. 480, 487-8).— which seems to show that his doubt about that test was produced on purpose to meet the present case.* However this be, by the causes for which he wants allowance to be made, he can only have reference to improvements in the production and transportation of commodities, the increasing quantities of which tend to lower their "prices" "quite independently of any change in the value of money" (p. 480); and so he. too, was impressed by the idea of cost-value.†

§5. Here among the undecided are to be placed also two eminent economists of the present day. Professor Alfred Marshall, in an article on *Remedies for Fluctua*tions in *Prices*, in the Contemporary Review for March

^{*}If so, Fawcett would belong among the economists in the next Section, but for his putting these passages in the same work with his former statements still left unchanged.

[†]In Mill and his school, it may be noticed, no reference being made to wages as a standard of value, there was little employment of the idea of esteem-value, and their confusion lies chiefly between exchange-value and cost-value. Also, because of the considerable influence ascribed to demand and supply, the idea of exchange-value came into greater prominence, although the cost-of-production idea stood in reserve, to be called upon whenever needed. In the former respect Mill's school is distinguished from Adam Smith's, and in the latter from Ricardo's.

1887, looked with favor upon Lowe's scheme of regulating contracts according to exchange-value (pp. 363-5).* He rejects bimetallism principally because by a mistaken argument he makes out that under it money is little more stable in exchange-value than under the gold standard alone (pp. 360-2).† As a substitute he suggested a plan that has since been called "symmetallism." of using gold and silver conjointly, which might ultimately include many other commodities, extending the dual standard to a multiple standard (pp. 368-71). Of the unit provided by the latter standard he said that, in spite of its imperfections, "even in its simplest and most easily workable form, this unit gives a tenfold better standard of value than that offered by the precious metals" (p. 372). Here he also definitely maintained that fixed incomes, which are certain amounts of money. should preserve the same purchasing power, and not increase in such power as to keep up with the advance of social wealth (p. 375), i. e. not be stable in esteem-About the same time, in his Evidence before the Gold and Silver Commission, he would confine the term "appreciation" of gold to what he called "its old usage" of meaning a fall in general prices (q. 9625). But here a deflection begins. He would use the term "appreciation" also in another sense, contrasted with prices, as power of purchasing labor, and spoke of this as "real value" (ibid.). And because a general fall of prices



^{*}In his earlier work, written in collaboration with Mrs. Marshall, The economics of industry, 1879, "value" had everywhere been treated as value in exchange or purchasing power, see (in the edition of 1888) pp. 68, 69, 150-1, 158.

[†]This opinion is maintained also in his *Evidence* before the Gold and Silver Commission, Appendix to the Final Report, 1888, q. 10,002; and in his *Principles of economics*, Vol. I. 3d ed. 1895, p. 674n.

without a fall of wages gives better real wages, he averred it to be his opinion that the fall of prices which had lately been going on "causes the wealth of the country to be more equally distributed than it would be if the high prices of 1873 had been maintained" (q. 9805), and viewed its continuance with equanimity (q. 9816).* And still in the first volume of his unfinished Principles of Economics (3d ed. 1895) he exhibits the same curious inconsistency. Here he confines the term "value" to exchange-value (p. 8), and clearly states that what he conceives to be the proper functioning of money is its remaining steady in its "purchasing power over things in general" or its "general purchasing power" (pp. 9, 185, 432 n, 673-4 n).† And yet in one passage (p. 674 n at bottom) he abandons the whole case by conceding that the evils which generally accompany falling prices do not exist when the fall is due to lessened cost of production of the articles, asserting that in this case without such a fall injustice would be done to certain classes of wage-earners whose wages or salaries or fees are fixed by custom, and approving the recent fall of prices for "following the increasing command by man over Nature."

President A. T. Hadley, in his *Economics*, New York, 1896, says: "The value of money is measured by the quantity of other things which a unit of money will purchase. It varies inversely as the general level of prices" (p. 193).‡ He also speaks of "depreciation" as



^{*}Yet in the 1888 edition of the *Economics of industry* there is an insertion pointing out evils in falling prices, pp. 155-6.

[†]He also now applies the term "real value" to such purchasing power over things intended for consumption, while purchasing power over labor he calls "labor-value," p. 708.

I With the last cf. pp. 189-90, 192n, 206.

"loss of purchasing power," at least when it follows inflation of debased currency (p. 190), and says "the supply and the demand of gold money are in equilibrium" when they are such as to dispose of all the gold in either the currency or the arts "at a given price level" (p. 201). Consequently he devotes some attention to the method of averaging variations of prices (pp. 193-4); but the scheme (Lowe's) of applying the "tabular standard" to contracts he rejects as impracticable, and apparently only for this reason (p. 207). Yet he has objected to the ordinary index-numbers that they omit notice of services or wages, that they use only wholesale prices, and that they are confined to a few central points of consumption instead of being extended to the many scattered points of production (p. 195). dealing now with the question of bimetallism, to the claim that of late money has been appreciating he objects that the fall of prices (which is admitted, p. 195)* has been due chiefly to the falling costs of production (pp. 211-12), apparently as if this explanation did away with the "appreciation" of gold, although it cannot do away with its increased purchasing power, which is the very fact it is adduced to explain. He urges also that debtors have not suffered, because they do not have to repay more labor, which he now treats as the subject of contracts, saying that what the debtor really borrows is "a certain amount of control of labor" (p. 213). Here he is using the labor standard. And he uses the same, or the cost standard, immediately later



^{*}He also speaks of "the scarcity of gold, so severely felt in recent times," and says it is now "adjusting itself by an increase in supply," p. 204, and adds: "If this process continues, the present very low price level can be only temporary," p. 205.

in contrasting the depreciation of silver with the appreciation of gold so far as admitted, placing the former in a great fall of the "marginal cost" of silver and the latter in a slight rise of the "marginal cost" of gold (pp. 213-14), without any thought of comparing these changes with what has been going on in the "marginal costs" of commodities in general. He also lays stress upon the fact that adjustment of the rate of interest does much to counterbalance losses and gains to contracting parties for advancing or receding prices (pp. 212, 226-7);* which pro tanto means that variation in the purchasing power or exchange-value of money is indifferent.

§ 6. Finding such inconsistency in the works of the theoretical economists, we cannot be surprised at meeting similar inconsistency in the writings of persons excited by a political contest. In the recent controversy on the bimetallic question the inconsistency appears mostly on the side of advocates of the single gold standard, because they alone were desirous of denying the conclusions drawn from the commodity standard that gold money had of late appreciated and that silver had not depreciated, and yet, in common with all persons who use the term "value" in the sense of exchange-value, they have a natural inclination to accept the commodity standard whenever they can, or when they are off guard. It may be instructive, though it is not edifying, to review the opinions of some of these writers.

In one of the early papers (of 1889) reprinted in Studies in Currency, London, 1898, Lord Farrer, speaking of gold as "the measure of value," refers to the effect upon contracts of a change in its "value or pur-

[•]Cf. J. B. Clark's doctrine.

chasing power" (p. 102), and frequently shows his conception of "value" to be of exchange-value proper. defining "value" either as "simply what can be got for" the article possessing it (p. 90 n), or as "a relation between two or more things" (p. 103, cf. p. 60), admitting that "fall in prices" and "appreciation of gold" are "only different forms of expression for the same thing" (p. 60. cf. p. 51), and treating a sovereign as a "unit of purchasing power" (p. 102). But in the same paper he speaks of a general fall in prices taking place without "any change in the measure of value," if the fall be due to increased abundance of the things sold. and implies that the measure of value, which is money, would be constant if "the price of labor remains the same," while the prices of commodities fall "in consequence of improvements in production" (p. 35). Similarly in a later paper (1894) he speaks of "an ideal standard of value" being "a fixed quantity of human labor." and considers the monetary standard to be good if the rate of wages be constant, while prices fall so as to raise the real remuneration of labor (p. 307). argument for this position is merely that with steady prices wages will not rise in the same proportion with the improvements in production, so that the wage-earners will not get their full share of the economic advance.* Here we have Adam Smith's sole wages standard. From this he soon deflects. In later papers (1895 and 1897) he again defines "value" as "the quantity of other things for which it will exchange," and wants, as the best standard of "value," a material "which



^{*}But on p. 124, speaking of the conditions after the gold discoveries in the 50ties, he had said: "prices increased, and wages increased in a still greater proportion."

varies as little as may be in its relation to other things" (p. 5). But the passage shows that under "things" he includes "a day's labor." And so again. when he says "all sensible men desire a standard of value which shall be as stable as possible in respect of all the different things which it is employed to measure." because he would include wages and salaries and rents and retail prices and the prices of luxuries in his list of prices to be averaged (cf. pp. 252-3, 298), he thinks himself justified in adding that "when all prices are taken into account, there is nothing whatever in the recent history of prices to show that our present standard of value is unstable" (p. 265). Here we have the commodity-and-wages standard, likewise of Adam This is not yet all. Silver he condemns because it has fallen in "value" even though its fall in "value" were concurrent with the general fall in "value" of commodities, in which case he recognizes that silver prices would be stable (pp. 218, 366), and in which he ought to see that the exchange-value in commodities of silver would be stable. Here by such a "depreciation of commodities" he can mean only a fall in cost-value or esteem-value. Therefore he objects to a fall of prices, as an injury to debtors, only if the fall be due to a "scarcity" of gold, causing its "value" (cost-value or esteem-value) to rise, but not if due to an abundance of goods that causes their "values" (the same) to fall to the extent indicated by their prices (pp. 61, 64, 134, 250); for in this case he conceives of the "value" of money as remaining stable, and he will allow a fall of prices to be "appreciation" of money only if the cause of the fall be something happening to money (p. 297). Yet this commodity-and-wages

standard would show money to be stable only if the rise of wages were sufficient to compensate the fall of prices; but nothing is here said about wages, so that the reference must be to conditions of production. Thus we seem to have four standards: the commodity standard, of exchange-value proper; the wages standard, of exchange-value in, or purchasing power over, commodities and labor; and the standard of cost-value, the method of measuring which is not described.

Professor Laughlin in his History of Bimetallism in the United States, New York, 1885, affirmed that "the highest justice is rendered by the state when it exacts from the debtor at the end of a contract the same purchasing power which the creditor gave him at the beginning of the contract, no less, no more" (p. 70, similarly again p. 192). In the Preface to this work he recognized the use of the term "appreciation" in the sense of increase in purchasing power even though the cause lie with commodities and not with money (p. x); and for the purpose of securing stability of such purchasing power. he advised bimetallists to advocate rather the adoption of the "multiple standard" system (pp. x-xi). same position is also maintained in his Elements of Political Economy, New York, 1887, where he treats the "multiple standard" independently of the bimetallic controversy (pp. 76-7). He here defines value as a "ratio," and the "value of money" as "a relation of money to all things which are exchanged for it" (p. 75). and opposes fall in value of money to general rise of prices, and reversely (pp. 64-5), and says "there cannot be a general rise or fall in the values of commodities" (p. 64). The following very definite proposition

is laid down: "A long contract, like a government or a railway bond, ought not to be settled by paying back the amount of gold or silver borrowed, but by giving the lender a sum which would, at the time of repayment. purchase the amount of commodities for which the money loaned could have exchanged at the time that it passed from the lender to the borrower" (p. 76). almost simultaneously with this, in an article on Gold and Prices in the Quarterly Journal of Economics, April 1887, while admitting that a general fall of prices had recently taken place, he did not admit either scarcity or appreciation of gold, because the fall of prices was due to causes affecting commodities. Here the word "appreciation" is used in another sense, and the existence of the thing is denied, because, in a corresponding sense of the contrary term, he believed that, instead, there had been depreciation. In a similar manner he had, in the first work, the History, spoken both of gold and silver as being "changed in value, like other commodities, under the influence of a lowered cost of production" (p. 113), without reference to other things. which is a fall in their cost-values. Both the positions occur again in the campaign book. Facts about Money. or Laughlin versus Coin, Chicago, 1895. Here all the definitions are of value as exchange-value proper:value is only relative, it is what the thing will exchange for, it is purchasing power "over commodities in general" (pp. 75, 147, 192). "When a man borrows \$1000 he borrows a claim on goods in general, and the money is only a go-between" (p. 152); money "is only a medium for getting from goods to other goods" (p. 80): "the important thing is the quantity of things for which gold will exchange" (p. 76). Values cannot all

rise or fall together (pp. 147-8); but prices can, and a variation of general prices constitutes an opposite variation of the value of money (pp. 117, 119, 146, 148): and as money is a measure of value, not only stability in its value (p. 87), but stability in the level of prices. is desired (p. 134, cf. pp. 119, 156), one of our needs being for a "stable standard of prices" (p. 158). conformity with this position, he argues against the bimetallists that gold is the stable standard, and silver has depreciated, because gold prices are now at nearly the same level as in 1860 (passing behind 1873), while silver "has fallen away from all commodities." that is. silver prices have risen (the fact that this change took place before 1873 being ignored).* He also frequently balances causes operating on gold over against causes operating on commodities, to effect a change in the value of money or in the general level of prices; and finding such causes both in supply and demand (especially so on the side of money, p. 176, following Mill). and in cost of production, he discovers, all told, four causes of change in the value of money or in the level of prices.† The two sets of causes may operate on both sides together, and he recognizes that the value of money and the general level of prices will be altered. if there is excess in their operation on one side; otherwise, the opposite forces neutralizing each other, the value of money and the general level of prices remain unaltered (p. 100). All this is perfectly plain, and it is true of exchange-value, and only of exchange-value.

[•] Pp. 154, 194, 196, 198-200, 229, 249. But on p. 153 the comparison is inadvertently made with 1873.

[†]Pp. 109-10, cf. pp. 76, 192. These four causes we shall later see developed by an earlier economist, who treated only of exchange-value.

But now again he confines such balancing only to "prices." saving: "prices can be changed. (1) by an increase, or (2) decrease in the value of gold: or (3) by an increase, or (4) decrease in the cost of goods" (p. 114): and he explains the fact, which at first had astonished him, that prices when he wrote, in spite of the great cheapening in the costs of production of commodities, were not sensibly lower than in 1860, by the counterbalancing influence not only of the cheapening in the cost, but also of the lowering in the "value," of gold (np. 194, 250). "Gold," he says, "has also fallen in value because of its lessened cost, and the joint result of the fall of goods and the fall of gold is that prices are not much different from the level of 1860" (p. 196). All this amounts to saying that the causes previously allowed to be causes of a change in the "value" of money as well as of a change in prices, if acting either on money or on commodities, or on both unequally. though still allowed to be causes of a change in prices. are no longer allowed to be causes of a change in the "value" of money unless they act directly on money. no such change being allowed to exist if those previously assigned causes act only on commodities, so that they now cease to be causes of this kind of change: and no balancing is now allowed in the case of "value." since the status of the "value" of money is now viewed as depending entirely upon how the causes act on money and not at all upon how they act on commodities. previous balancing, for instance, between costs, producing constancy both in the "value" of money and in the level of prices, is now a balancing both of costs and of "values," producing constancy only in the level of prices. Of this difference of position (for it is not a

change, as the two are mixed together) we have the key, although no hint of it is given by the author to his readers. In the last-quoted passages the fall in the "value" of gold, which, as counterbalancing the fall in the "values" of goods, is used to explain the equality in the level of prices in 1895 and in 1860, is a fall in cost-value, while the equality in the level of prices constitutes an equality in the exchange-value of money at those two periods. Similarly the author explains the falls in the prices of various and all commodities which have taken place since 1873 (or 1865 as he once says. pp. 248-9), by special causes, principally various cheapenings in the costs of production, affecting the "values" of the commodities alone, and entirely independent "of the money question" (pp. 122-3, 165-7, 196, 230, 249). Here, too, the term "values" means cost-values; and as it is maintained that during this period the costvalues of commodities are exactly represented by their prices, it is virtually held that during this period the cost-value of money has remained stable. Thus Professor Laughlin defends the gold standard both because it shows stability in exchange-value between 1860 and 1895, and because it shows stability in cost-value since 1873. In this work there is occasional reference to the rise of wages during the recent period as contributing to the proof that gold is not scarce or appreciated (pp. 164-5, 196). More use of this feature in the question is made in the Professor's recent Report of the Monetary Commission, Indianapolis, 1898. Here some of the positions of the preceding work are repeated. The author speaks of gold having fallen in cost of production, and of its having become "depreciated" "as compared with human labor" (p. 101). And the movement of the

standard (gold)—its lagging behind commodities in the downward course of cost-values - he approves. and so approves its rise in exchange-value in commodities. In fact, he treats the view that the money metal should "follow the general tendency of goods to fall in value." i. e. that money should fall in cost-value proportionally with goods so as to retain constant its exchange-value in goods, as the position of his opponents, the discussion of the justice of which he will here omit (pp. 98-9). Yet in this very work he has started out by defining "value" in a way applicable only to exchange-value in commodities, saying that "the value of a commodity," and hence also of money, "is the quantity of another commodity, or of other commodities, for which it will exchange" (p. 77, similarly p. 78). Thus, although in this work he desires in the standard of deferred payments "stability of value" (p. 83), it is not stability of the value he defines to be value, but stability of something else. He expresses his present position most fully in the following words. "The article chosen for that standard," he says, "should place both debtors and creditors in exactly the same absolute, and the same relative, position to each other at the end of a contract that they occupied at its beginning; this implies that the chosen article should maintain the same exchange-value in relation to goods, rents, and the wages of labor at the end as at the beginning of the contract, and it implies that the borrower and lender should preserve the same relative posi-*tion as regards their fellow producers and consumers at the later as at the earlier point of time, and that they have not changed this relation, one at the loss of the other" (p. 92). Consequently he now attaches much

importance to the consideration whether a change in the general level of prices is due to forces affecting the gold side or the commodity and labor side of the balance (p. 93), the contrast no longer being between gold, or money, on the one side and commodities on the other. but between gold on the one side, and on the other. both commodities and labor (cf. p. 95); and what he now desires in money is that it shall "maintain the same exchange-relations and the same level of prices with labor and with all other commodities" (p. 97). And accordingly he now finds fault with the "multiple standard" (the commodity standard) for not including labor, or wages, and says that "if the price of labor were to be given its relative importance in a Multiple Standard for recent years, it might appear that prices as a whole had not fallen at all" (p. 107). So he now seems to be trying to make out that even since 1873 gold has remained stable in exchange-value—that is. in exchange-value extended to cover an esteem-value element by including the price of labor. And he advocates such a mixed standard, on the ground that debtors are not the only ones who make improvements (ibid.). He is, however, still willing to allow any one who prefers it to use the "multiple standard." confined to commodities, in his contracts (p. 108); and even countenances the position that, whether the standard adopted originally favors the creditor or the debtor. the results would work out very much the same by means of an adjustment of the rate of interest (pp. 107-8);* which amounts to saying that after all the question about the standard is not of much consequence.



^{*}Cf. note on p. 22 above, in which this position was advanced by Professor Clark.

A few more instances from the campaign literature of 1895 may be cited. In Base Coin Exposed, published at Chicago under the sobriquet of "Silas Honest Money," Mr. R. W. Knott not only defined "value" as purchasing power over "goods or services" (p. 100, cf. p. 175), but asserted that "labor is the real measure of the exchangeable value of all commodities" (p. 74).* In The Great Debate (Chicago) Mr. R. G. Horr said. "The real measure of value is human toil" (pp. 222. 291); which seems to be the cost standard (cf. p. 294). But again he said, "It [the market value of gold] is determined by comparing it with all the other products of the world" (p. 426); which is the commodity stand-Then also he said: "As gold measures the value of commodities, wages and land, so wages, lands and commodities measure the value of gold" (p. 517); which is a combination of the wages standard and the commodity standard. plus a land standard. Another writer even succeeded in putting both these standards in a single sentence. In a letter reprinted in A Dollar worth a Dollar (New York) Mr. T. J. Ford asserted: "All financiers agree that the highest and most unerring standard of all values is labor, for the reason that the prices paid for labor . . . measure the value of the output: . . . and currency . . . is only valuable for the amount of products it will buy" (p. 122). Money and Banking (New York) Mr. H. White wrote that "when we speak of the value of the one thing which measures all values we mean its purchasing power in terms of those commodities whose supply is unlimited, or not controlled by monopoly;" and that "if



^{*}Similarly in A currency catechism, published in the same year at Louisville, over his own name, p. 2.

gold is subject to fewer changes of purchasing power than" anything else, "it is better fitted to serve the purpose of money" (p. 28). Here we have the desideratum of least variableness in exchange-value proper. But in a later passage in the same work he found satisfaction in a general fall of prices, provided it be accompanied by a rise of wages, and denied that such a fall of prices as had lately taken place constituted—he said "has been due to"—"appreciation of gold." on the ground that it has been due, in every particular case, to improved facilities in producing and transporting the articles (pp. 109-10). Here we have, as the desideratum in money, constancy in cost-value, the desire being that the cheapening in the cost of goods shall manifest itself in a corresponding cheapening of their prices. Coin at School in Finance (Chicago again) Mr. G. E. Roberts in one passage most explicitly adopted the conception of labor-value, apparently in the sense of costvalue, saying: "The ideal standard of value is the productive value of manual labor. . . . If a man borrows a given amount of money it is essential to justice that when he comes to pay it the sum shall represent the same amount of labor and self-denial that it did when he received it. If this is the case the lender receives back the same days' works that he advanced, plus the interest agreed upon, and the transaction is as square and level as the exchange of work so common among our farmers in harvest and threshing time" (pp. 68-9). But again he said: "When the little money that I have saved and put at interest is paid. I want it to come back with substantially the same purchasing power that it had when I loaned it" (p. 86). In this he probably referred also to purchasing power over labor; but he

could not exclude purchasing power over commodities. so that here we have at least the mixed standard. Later. when he became Director of the Mint, Mr. Roberts confined himself to the former position, but in both its forms. "Human labor," he now said in his Report of 1898, "is the final standard by which" gold and commodities "are rightly measured" (p. 573);* and consequently he welcomed a fall of prices due to improvements, "because it signifies increased purchasing power in the people" (pp. 573-4). For "if a given amount of labor commands as much gold as formerly, but through a stable relation to gold commands more commodities, the decline in the latter is not something to be deplored" (p. 574). This is the wages standard. Then he returned to the cost standard, saying: "If prices fall to correspond with improvements in production," or again, "If all products could be exchanged on the basis of the labor and skill required to produce them, and all services rendered and loans contracted upon the basis of a return in kind of day's work for day's work, that would seem to be an ideally accurate and equitable arrangement" (ibid.). We Americans are to be felicitated on having a government that can instruct us in an abstruse scientific question where doctors disagree. although its instruction might be more effective did its official instructor only agree with himself.

Very recently, in *The Evolution of Modern Money*, London, 1891, Mr. W. W. Carlile says that because money is used as "a store of purchasing power," † that

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^{*} In Annual report of the Secretary of the Treasury for 1898, Washington, 1898.

[†]Rather curiously, he so interprets a passage in Ashley's Introduction to English economic history and theory, Vol. I. pp. 163-4, which says merely that one use of money is as "a store of value."

money is best which best subserves this end (p. 187). But he seems to conceive of this end being subserved by any money that does not fall in purchasing power (cf. p. 272), whatever else it may do;* for which reason gold is viewed as a better standard than silver.

§7. The inconsistency, however, has not been confined to the advocates of the gold standard. Even a few, but only a few, of the bimetallists have fallen into confusion on this subject, which is of such fundamental importance in their doctrine. Thus an out-and-out bimetallist, Mr. John A. Grier, in Our Silver Coinage. and its relation to Debts and the world-wide Depression of Prices. Philadelphia, 1885, twice slipped into using the labor standard as alternative with the commodity standard (pp. 39, 93), although the subtitle and the general tenor of the work (e. a. p. 47) show that the latter was Then Mr. T. B. Buchanan in his lithis real standard. tle treatise on the Principles of Money and Coinage. Denver, 1894, though using "value" in the sense of exchange-value (pp. 14-15, 18-19), and definitely stating that just and honest money must have as its prime requisite stability of value or purchasing power (pp. 35, 132), yet conceived the best, because the most easily regulated, money to be paper notes based upon labor. which he calls "labor note money," the unit of value being a unit of time (an hour or day) of labor, classified according to skill, and such money being payable for products to the amount of their cost in hours or days of toil so classified (p. 134). Such money would be stable in cost-value, and therefore not necessarily in exchange-



[•] He also seems to use the idea of cost-value against the idea of exchange-value, pp. 311-13; and he speaks of appreciation of gold as happening only during a panic, p. 315.

value or purchasing power, unless allowance were made in the classification for variations in the efficiency of labor. Indeed such money, without this allowance, would advance in exchange-value or purchasing power as progress takes place in cheapening the labor-cost of goods; and with this allowance, the system would only be a clumsy means of securing money based upon a unit of value identified with a unit of commodity, that is, stable in exchange-value proper. But most surprising, and most regrettable, is the deviation made by one of the greatest bimetallists, and one of the greatest economists of recent times.

Throughout his many works F. A. Walker frequently defined "value" simply as "purchasing power, or power in exchange;" * but when he gave a formal definition of it, he expanded the term "purchasing power" to power of commanding in exchange "the labor, or the products of the labor, of others." † His standard of value in deferred payments would then seem to be properly composed of prices (of commodities) and wages. But in his earliest work on the subject he in one place said the repayment should be made in the same cost of production, 1 and in another place treated of contracts as virtually calling for so many "days' labor." || which seems to be the wages standard. Throughout his works, also, the idea of cost-value recurs; for in the later two he recommended wheat as the best standard over long periods because of the greater stability of its cost of production.** In certain passages, however, he

[•] Money in its relations to trade and industry, New York, 1879, p. 36: Political economy, New York, 1887, pp. 82, 131.

[†] Political economy, pp. 5, 81, 84-5.

I Money, New York, 1877, p. 36. | Ibid. p. 90.

^{**} Money, trade and industry, p. 68; Political economy, p. 142.

simply wanted the standard of deferred payments to place the creditor in the same position "with respect to the purchasable wealth of society."* or objected to the adoption of the single gold standard as having increased the "purchasing power" of money;† but as he included labor among the articles purchasable, he interpreted this as meaning that that adoption caused to laborers greater difficulty in paying their debts. I Yet again he was in general favorable to the scheme of paying debts according to the "multiple standard," which only includes commodities. || But in one passage he showed that he was willing to adopt this standard, not because it is the proper standard of exchange-value, but because there is probability that among a large list of commodities the rise of some in "value" will be compensated by the fall of others in "value." ** The "value" here can only mean cost-value or esteem-value, which is therefore the real invariable quantity he had in mind. Yet, lastly, one of his recommendations of bimetallism is that it is likely to give a better standard for deferred payments. because of its compensatory action in throwing the demand from the rising to the falling, or from the less falling to the more falling, metal. †† But no analysis of this action can show it to cause greater likelihood of steadiness in any value except exchange-value, or possibly esteem value.

^{*}Money, trade and industry, p. 62.

[†] Ibid. p. 191. ‡ Ibid. p. 193.

[|] Ibid. pp. 70-77; Political economy, pp. 142-3, 371-5.

^{**} Money, trade and industry, p. 71. Remember Senior.

tt International bimetallism, New York, 1896, pp. 148-9.

CHAPTER VI

ECONOMISTS WHO HAVE PASSED FROM THE ONE TO THE OTHER STANDARD

§1. Slightly different from the preceding economists who are confused between the different standards and the different kinds of value in the same work or works, are those economists who have, in separate works, passed from one standard to another without appearing to recognize that they have made a change. The course pursued is generally from the doctrine of exchange-value to the doctrine of one of the two labor-values. It would seem as if the use of the term "exchangeable value" is strong enough at the start to put these economists on the track of exchange-value; but that afterwards gradually the influence of the labor theories of value—theories explaining relative values in some way by means of labor—gains strength enough to deflect them into the other directions.

An early example of change of opinion is presented by Germain Garnier. In the notes which he added in the fifth volume of his translation of Adam Smith, published in 1802, Count Garnier conceived of the "value" of money, and even of its "real value," as measured solely by the quantity of commodities it would purchase, and as varying inversely with the level of prices; and held that debts ought to be paid in an equal amount of purchasing power over commodities as was originally consigned by the lender to the borrower (pp. 428-34). Nothing could be more explicit in favor of the idea that money is a measure of, and ought to be stable in,

exchange-value proper. And yet this author, many years later, reverted to the labor-cost standard in comparing the "value" of silver in antiquity with its "value" in his day.* But for practical reasons, like so many others, he used the price of wheat, asserting, rather inconsequentially, that wheat is the article stablest over long periods in "intrinsic value" (defined exactly like Adam Smith's "exchangeable value" and "wealth") because in its production human labor plays the least part, the mysterious labor of Nature doing most of the work, and also because, as it is the principal subsistence of the laborers, it naturally regulates the value of labor and its products.†

§2. In England, a few years after the death of Ricardo, a couple of anonymous works, known to be by Samuel Bailey, made some stir because of their acute criticism of Ricardo's conception of labor-cost as the standard of value, although, as we shall see, similar criticism had been made by Colonel Torrens during Ricardo's lifetime. In the first and longest of these two works, Bailey conceded to Ricardo that in some cases (forming one of three classes into which all products may be divided, p. 185) the labor-cost regulates the relative values of two or more commodities in a given place at a given period; but he denied that the labor-cost of a single commodity regulates its value through the course of time. Abiding by Ricardo's own definition of "value" as "the power of purchasing other

^{*}Mémoire sur la valeur des monnaies de compte ches les peuples de l'antiquité, Parls, 1817, p. 43.

[†] Ibid. pp.42, 43-4.

^{\$\(\}frac{1}{A}\) critical dissertation on the nature, measure, and causes of value, chiefly in reference to the writings of Mr. Ricardo and his followers, London, 1825; A letter to a political economist, London, 1826.

goods." he maintained that if one commodity remains of the same cost, while others are produced with one-half the labor formerly required, that one article rises in "value." because, by the Ricardian doctrine of relative values, it comes to exchange for more of the other articles (pp. 6, 10-11); while, if all commodities were equally improved in their costs of production. "the value of each individual commodity would remain as before" (p. 154). He summed up his criticism in the second work thus: "The right conclusion from his [Ricardo's] doctrine, which affirms labor to be the sole regulating principle of value, is, that two commodities would always be of the same value in relation to each other, so long as they required the same labor to produce them; but Mr. Ricardo, losing sight of relativeness in the term value, concluded that one commodity, without reference to any other, would be always of the same value, if produced by the same labor; and hence that a thing would increase or decrease in this property of value, not in relation to other commodities, but considered by itself, in proportion as it required more or less labor for its production."* Bailey's own view was that the comparison of the value of a thing at one time with its value at another is "not a comparison of some intrinsic quality at one period, with the same quality at another period: but a comparison of ratios, or a comparison of the relative quantities in which commodities exchanged for each other at two different periods." † Here we have a perfect account of exchange-value, with emphasis upon its correlativity. But unfortunately it is only a limited account of exchange-value. Bailey

^{*}Letter, pp. 53-4; cf. Dissertation, pp. 9-10, 17-18.

[†] Dissertation, pp. 72-3.

does not rise above the conception of particular exchange-values, forms no conception of general exchange-value, and so denies that the "value" of a thing can be compared with itself at different periods. or that there can be a measurement of "value" through the course of time.* This defect had important consequence. For about ten years later he devoted attention to the good and bad effects which flow from variations in the "value" of money through the course of timethe very thing which he had before denied to be measurable or even conceivable. In the work treating of this subject † he seems to rise to the conception of general exchange-value: for he speaks of "a general rise of prices" being the same as "a fall in the value of money" (pp. 46-7, cf. p. 14). But notwithstanding this, and although he remarks upon the importance of money being stable in "value," presumably in this sense, he now departs from this position, and reverts to another conception of value. In his first work, near the commencement, he had spoken of "value, in its ultimate sense," as "appearing to mean the esteem in which any object is held," a phrase which Malthus turned to his own purposes against Bailev. | Bailev now reverted, not so much to this, as to the allied conception of cost-value. He did so by distinguishing between a change in the "value" (exchange-value) of money originating on its side, and a change in its "value" originating on the side of commodities (pp.

^{*} Ibid. Chapt. VI.

[†] Money and its vicissitudes in value as they affect national industry and pecuniary contracts, London, 1837.

¹ Not in its capacity as a measure of value, but in its capacity as "the medial commodity," pp. 8-10, 13.

Malthus's Definitions in political economy, Chapt. VIII.

16-17). His meaning comes out clearest in the examination of the relations between creditors and debtors. This he conducted through four suppositional cases: when money (1) rises or (2) falls in "value" [both exchange-value and cost-value, its cost rising or falling. while the costs of commodities remain unchanged: and when money (3) rises or (4) falls in "value" [exchangevalue, but remains unchanged in cost-value], its cost remaining the same, while the costs of commodities fall He concluded that in cases (1) and (2) there is or rise. injustice between the parties, and that in such cases contracts ought to be paid in the same "value" [which is both the same exchange-value and the same costvaluel: but that in cases (3) and (4) there is no reason why the creditors should not share in the gains and losses which these conditions bring upon society (pp. 112-22). It is plain that in these latter cases his desire was that contracts should be paid in altered exchangevalue, but in the same cost-value. He therefore objected to the scheme of regulating the payment of debts by the multiple standard (Lowe's and Scrope's scheme. to be noticed presently), not only because of certain practical difficulties, but because according to it the lender would always receive back only the same quantity of goods whether produced with more or with less labor, and so might lose in command over labor: and he considered the scheme to be right only when the change in the "value" of money originates in the money, but if the change originates in the commodities, the repayment, he thought, ought to leave the contractants to their natural proportions of gain and loss (pp. 165-8). This last, and some other allusions, point to the idea. that the creditor and debtor should share between them

the gain or loss on the loan: which means that labor should form only part of the standard, in conjunction with commodities. But it may mean merely that the creditor should share with the debtor in the general advance or retrogression of prosperity, by getting all the commodity gain or loss on the loan itself, leaving to the debtor to get his share from his own capital and industry: which is in accordance with the cost standard. This, certainly, is the position taken in the analysis of the four suppositional cases. Thus Bailey reverted to Ricardo's attitude toward the "value" of money through the course of time, although he did not adopt Ricardo's phraseology, and so avoided Ricardo's confusion, but instead, through the defectiveness of his own phraseology, committed the inconsistency of saying that money ought to be stable in "value" and at the same time wanting it, in certain circumstances, to vary in the only "value" for which he had a term, his only justification being that money would then be stable in another kind of value for which he had no term.*

§3. After the gold inundation of the 50ties the ensuing rise of prices attracted the attention of a person who soon became one of the greatest of modern economists. In 1863 Jevons published A Serious Fall in the Value of Gold ascertained, and its Social Effects set



^{*}Somewhat the same criticism of Ricardo as Bailey's, with a similar, but more consistent reversion to, or rather, in this case, retention of, Ricardo's real position, all in one book, was made by Ch. F. Cotterill, in An examination of the doctrines of value as set forth by Adam Smith, Ricardo, McCulloch, Mill, etc., being a reply to those distinguished authors, London, 1831. For the criticism of Ricardo see especially pp. 8-12, 125. Recognizing that for money to be stable in exchange-value it would have to vary in cost with the average of commodities, p. 120, he wanted it to be stable in cost, pp. 105, 115, 122.

forth.* In this, and in other works written during that period of abundance of gold, he consistently used the term "value" in the sense of exchange-value proper. and continued to use it in this sense in his later writings. Thus in that first work he wrote that "value is a vague expression for potency in purchasing other commodities" (p. 20), and that in the case of gold money, "if prices on the average have risen ever so little, this constitutes a fall in the value of gold" (ibid.). † or that if the prices of commodities rise on the average higher than the price of silver, "this fact constitutes depreciation of silver" (p. 62); and he expressly denied that the question about a change in the value of gold is to be determined by considering whether the cause lies on the gold side or on the commodity side, although the settlement of the former question may help to determine the latter (pp. 18-19). A little later he said: "In an economic sense, the values of two things merely express the ratio in which they do as a fact exchange for each other." And so in his Theory of Political Economy. first published in 1871, he laid down this definition: "The word Value, so far as it can be correctly used [in connection with a commodity], merely expresses the circumstance of its exchanging in a certain ratio for some other substance" (p. 82). In the second edition of

[•] Reprinted in *Investigations in currency and finance*, London, 1884, pp. 13-118. References are to this.

[†]Cf. The depreciation of gold, 1869, in Investigations, p. 154, and Money and the mechanism of exchange, London, 1875, p. 315.

[†] On the condition of the gold coinage of the United Kingdom, etc. 1868, in Investigations, p. 251.

^{||} In the second ed. pp. 83-4. Cf. "The word value only means that so much of one thing is given for so much of the other," Primer of political economy, London, 1878, fourth ed. p. 98.

this work. 1879, he distinguished between three meanings of the "vague" term "value," as "value in use." "esteem, or urgency of desire," and "ratio of exchange" (p. 85). Here, as already in the first edition of this work, he declared his intention to discontinue using the word "value" and to substitute in its place the expression "ratio of exchange." * Needless to say, he did not abide by this resolution even in this work itself: but he did confine himself pretty successfully to using the term "value" in the sense of ratio of exchange.† In his early statistical investigations into variations in the exchange-value of gold, he expressly asserted that the special causes of the variations in the prices of particular articles should not be considered, partly on the ground that the principle of probability would lead us to place the single adequate cause in money, if there is a general change in prices in the same direction; ‡ and partly because, whatever be such special causes. "the result would none the less be an alteration in the purchasing power or value of gold." || Jevons recognized that the general fall of prices which had preceded the gold discoveries was to be explained by supposing that "while modes of procuring, raising and making other articles more easily and cheaply were constantly being discovered, no such great improvements took place in the procuring of the precious metals:"** and he argued



^{*}In first ed. p. 83; in third ed. 1888, p. 81.

[†] E. g. "Value is only the ratio of quantities exchanged," Money, etc. p. 15, cf. pp. 11-12, 68.

[‡] Investigations, pp. 58, 155-6, cf. p. 22.

^{||} Ibid. p. 156, cf. pp. 21, 58-9.—A fact, ascertained by observation and measurement, is not altered by the causes we may assign for it, so that, after all, the question of probability is excluded, so far as that question is about the cause of the variation and not about the fact of it.

^{••} Ibid. p. 110; similarly again pp. 131-2.

that the gold discoveries had "a considerable effect in reversing the previous course of prices,"* by throwing the greater cheapening of production on the side of At this time also he considered this reversion a temporary accident, and affirmed that "the normal course of prices in the present progressive state of things is downward." the improvements in production falling naturally more upon commodities in general than upon the precious metals.† In other words, he expected that in the future the exchange-value of gold and silver. articles produced with decreasing returns, would normally rise, or appreciate. On account of this variability of the exchange-value of the precious metals, he considered them imperfect instruments to serve as the standard of value in deferred payments and as the store of value, and desired that these functions of money should be separated from its functions as a medium of exchange and as a measure of contemporary values. I So long as this is not done, he is as explicit as possible in saying that what is desirable in money is the greatest possible approach toward stability in exchange-value, expressing himself to the effect that "the ratios in which money exchanges for other commodities should be maintained as nearly as possible invariable on the average." | As for the separation of the functions, it is well known that Jevons revived Lowe's and Scrope's scheme (which we have just seen condemned by Bailey), and urged its adoption in almost exactly the

^{*} Ibid. p. 138.

[†]Ibid. p. 158; cf. p. 138.

[‡]An ideally perfect system of currency, an unpublished chapter for his book Money, etc., in Investigations, p. 297.

[#] Money, etc., p. 38; similarly p. 15.

same way those authors had suggested it.* Thus in all his theoretical writings Jevons was an advocate of stability of money in exchange-value.

But now a change takes place. After the adoption of the single gold standard by several countries in 1873. prices took a downward turn again, and the "battle of the standards" began. It is noticeable that when Jevons touched upon the bimetallic question the whole character of his work changes, and his scientific interest seems to give way to practical interests. Thus he now pronounced gold to be more likely to be stable in "value" than silver, on the ground that silver is produced in a more regular industry. "so that the advance of mechanical and metallurgical science tends to cheapen it in the same way (though not in so great a degree) as it has cheapened iron and steel."† Here he fears the "cheapening" of silver, forgetting that this is cheapening of cost-value, and not necessarily of exchangevalue, especially if the advance of science cheapens other things more, as he admits it does in the case of iron and steel. As he had before said the tendency of science is to cheapen most things more than gold and silver, it would follow that if silver is likely to be cheapened more than gold, silver is likely to lag behind other things less than gold, that is, silver is likely to appreciate less in exchange-value, and so to keep nearer to the stability in exchange-value before desired, than gold. But he now abandons his former position that the "normal course" of prices (in gold and silver) is downwards, and expects continued "depreciation" of the precious metals, but mostly of silver, even in the



^{*} Ibid. pp. 328-33.

[†] The silver question, 1877, in Investigations, p. 311.

sense of a fall in exchange-value, on the ground that this has been the course of things since the discovery of America four centuries ago, * and since the discoveries of gold in California and Australia two decades ago. † In one passage he says the precious metals are less satisfactory as standards of value than many other commodities, "such as corn," because "their value has suffered and is suffering an almost continuous decline. owing to the progress of industry, and the discovery of new mechanical and chemical means for their extraction." I Here no reference is made to the improvements in the production of other things. || and no attempt to determine on which side the improvements are the more rapid. What he has in mind, therefore, is really only "depreciation" in cost-value, although he treats it as depreciation in exchange-value, and thereby reverses his former position — reverses it. however, without any reason except what comes from this confused substitution of the idea of cost-value for that of exchangevalue.** Also in two passages he seems to have in mind depreciation in esteem-value. †† Thus in his defense of the single gold standard, he departed from his definite



^{*}Ibid. pp. 312; Bimetallism, 1881, ibid. p. 319; and Common sense ideas about money, a posthumous fragment, ibid. p. 358.

[†] Money, etc. p. 143. † Ibid. p. 42.

^{||} In Investigations, p. 321, he makes the opposite mistake of attributing an earlier fall of prices entirely to what happened to commodities, without reference to what was happening to money.

^{**}He even went so far as to say that "the values of gold and silver are ultimately governed, like those of all other commodities, by the cost of production," Investigations, p. 318, cf. p. 351, forgetting what he had said in his Theory of political economy, that "the ratio of exchange governs the production as much as the production governs the ratio of exchange," p. 183.

^{††} Ibid. pp. 184, 187, speaking of the "value" of gold falling while wealth increases.

principle that "value" means only exchange-value, or ratio of exchange, and that money should be stable in this, and went over to the vaguely expressed idea that money should be stable in cost-value or esteem-value.*

§4. An economist whose first work dates back before Jevons's, Mr. H. D. Macleod, was one of the earliest protestors in England against the influence of Ricardo, and most completely demolished the cost-of-production theory. He therefore gave up all idea of "value" being cost-value, or even esteem-value, and adhered literally to the position that in economics "value" means only exchange-value.† It is true, he generally included services among the things an article can be exchanged for; but by "service" he seems to mean an immaterial product of labor, and not labor



^{*}It must be noticed, however, that Jevons never adopted the position which we shall see assumed by the next writer here reviewed, and which is held by so many recent economists, of avowedly asserting that a general fall of prices constitutes stability in the "value" of money, when due to falls in the cost-values of goods. He really maintained that whatever general fall of prices had taken place, before his death. was temporary (cf. Investigations, pp. 321, 355), and that a general fall of prices would not take place, in other words, that gold would not appreciate in exchange-value. In this he was consistent with his earlier position in conception. He changed his earlier position in expectation of facts. But this change was itself due to a deterioration in theory, as he ceased to compare the cheapening in cost of the precious metals with the cheapening of other commodities, and so fell into a treatment of the subject which is proper only for persons who conceive of "value" as cost-value or esteem-value. He did this also when he preferred gold to silver on the ground that it is likely to "cheapen" less, since this makes steadiness of cost the aim. It is for these reasons that Jevons cannot be placed among those who hold pure and undefiled the doctrine that money should be stable in exchange-value, in spite of the fact that this was his always avowed theoretical position.

[†] Elements of political economy, London, 1858, pp. 51-2 (to be referred to as E); Theory and practice of banking, London, third ed. revised, 1875, Vol. I. p. 65 (to be referred to as B).

itself; for he tells us it is not labor, but only the result of labor, that has value (E. pp. 53, 128; B. I. p. 104). He expressly rejects the cost standard.* and the wages He also expressly says that standard (E, p. 165). money rises or falls "in value in the inverse proportions in which" quantities of it "will exchange with other things," or that "the value of money varies inversely as price," † and speaks of the "value of coins" as "the power of purchasing, or exchanging for, other things" (C. p. 509), and of gold varying in "value" as it varies in "purchasing power" (C. p. 111). He is even so enamored of this idea as to think that the old term "extrinsic value." used in connection with coins (which meant what he calls "nominal value"), could only mean exchange-value (B. I. p. 390, C. p. 443). He is also one of those who recognize the principle that there can not be a general rise or fall of the "values" of all things (B. I. p. 70, C. p. 176); which we know to be true only of exchange-values. A certain proposition runs through all his works, to the effect that if the quantity of money changes always in exact proportion with the quantity of debts (or capital), no change will take place in its "value:" I and again, in one place, it is asserted that if commodities multiply faster than the paying medium, their prices fall (C. p. 857). We therefore seem to be in a position to know what he meant when he affirmed in his earliest work: "The first requisite of any substance used as a currency is steadiness in value, and just as that steadiness approximates to invariability, the

^{*}Theory of credit, London, second ed. 1893, p. 213 (to be referred to as C).

[†] E. p. 83; and so B. I. p. 43, C. p. 113.

i H. p. 161, of. 423; B. II. pp. 244-5; C. pp. 110-11.

more desirable it becomes." even though he added that this substance "should always be able to purchase the same amount of service" (E. p. 155). Unfortunately, however, from the beginning, Mr. Macleod rejected the possibility even of conceiving of any article remaining invariable in general exchange-value while all others vary,* and proclaimed the futility of seeking to obtain any currency with stable value (E. p. 165, C. p. 177). Consequently he became indifferent to this quality in money, in spite of having called it the "first requisite." And now in the chapter of his last work, dealing with bimetallism, which has been separately published, he rejects the testimony as to the recent appreciation of gold presented by the commodity standard of indexnumbers, on the ground partly that the prices can individually be accounted for as falling because of improved production and transportation of the articles, partly that there has been a rise of wages, and partly that the rate of interest has fallen (C. pp. 538-9). He even says that "a change in prices, or the value of commodities," may take place from a change in the commodities, without a change in the currency (C. p. 744), with obvious implication that this change in commodities is a change in their "values," thus allowing a general change of "values." before denied, and allowing gold to be stable in "value," although all gold prices fall. Evidently he now has in mind cost-value, of which alone (or of esteem-value) these statements are true.

Still another change has been made by Sir Robert Giffen. From 1872 when he wrote about the preceding period, down to the present, this statistician has consistently identified "depreciation" and "appreciation"

[•] B. p. 163; B. I. p. 69; C. pp. 177, 210-13.

of money with a general rise or fall of prices, without regard to their causes.* In that year, having knowledge of the coming adoption and re-adoption of the single gold standard, he anticipated a general fall of prices (1st. S. p. 106); and in 1879, and in 1885, he expected the fall of prices to continue (1st S. p. 339; 2d S. p. 88), correctly using the argument from demand and supply. Throughout most of his papers he recognizes that "it is not a mere increase of supply" of the money metal. "which tends to cause a fall of [its] value. but an increase of supply, in excess of demand" (1st S. p. 82); and reversely, that a rise in the value of gold, or fall of gold prices, is not due merely to a smaller supply of gold, but to a "relatively smaller and smaller supply of it" (1st S. p. 339): and so he has always shown willingness to account for the fall of prices by a "scarcity," or "relative scarcity," of gold.† Also he generally shows perfect understanding of the effect upon prices of a balancing between the increasing abundance and the falling cost of production of gold on the one side and of commodities on the other—that if the former preponderate, prices rise, if the latter, prices fall, and if they go pari passu, prices remain stationary, while wages, rents, and profits rise with the growing prosperity (2d S. pp. 23, 38); and that consequently, in a period of progress on the commodity side. in order to keep the equilibrium and to prevent prices from falling, there is need of an increase in the quantity of the money metal (2d S. pp. 53, 84, 85). And, like Jevons at first, he always thinks that the production of

^{*}Essays in finance, First Series, pp. 82, 200; Second Series, p. 376; Case against bimetallism, London, third ed. 1895, p. 219.

^{†1}st S. p. 338; 2d S. p. 23; Case against bimetallism, pp. 219, 222,

the precious metals is not likely to keep up with the multiplication of commodities, wherefore the "permanent tendency" of prices is likely to be downward; * and his argument against bimetallism is now that under it there will be appreciation of money as well as under monometallism, and if less, yet not sufficiently less to make its adoption worth while. † In objecting to bimetallism, however, he partly reverses his former views about the "quantity theory," which had formed the basis of most of his reasonings, and applies to metallic currency the doctrine which Tooke had invented for bank-note currency, viz. that prices determine, instead of being determined by, the quantity of currency in circulation. I But his change is principally in his attitude toward wages and prices. In 1879, in a study of The Effects on Trade of the Supply of Coinage, he had written: "The conclusion to which I have come seems to support the general opinion of the desirableness of having a money in use which does not change in value from period to period beyond the points within which changes of credit produce the usual oscillations" (2d S. p. 102); but at the same time he attached only secondary importance to this quality in money, allowing that we may have "a good standard money" which is "naturally subject to appreciation and depreciation" (2d S. p. 101). But later he inverted this, and in 1885, praising the good effects of "a period of low prices" (2d S. p. 35), which means a period of falling prices, he came to prefer appreciation to depreciation. Here he occupied an extravagant position, for he also wanted a fall of



^{*2}d S. pp. 29-30, 33, 93; Case against bimetallism, p. 74.

^{†2}d S. pp. 32-33, 103; Case against bimetallism, pp. 76-7.

¹ Case against bimetallism, pp. 82, 96, 98.

wages as well as of prices (2d S. p. 36). The next year he apparently wanted wages still to fall, but to fall less than prices (2d S. p. 474). But in 1892 he showed preference for a state of things in which wages are stationary and prices fall.* Here we have the wages standard.

Professor Zuckerkandl has recently presented us with a well marked change of opinion, probably independent of the bimetallic controversy, and due to the so-called Austrian theory of value, which treats "value" as esteem-value. In an article published in the Handwörterbuch der Staatswissenschaften, in 1893, he conceived of contracts as being properly repaid in the same purchasing power; wherefore he recommended Lowe's scheme of regulating the sum of money owed by the variation of the general price-level as measured by the "tabular" or "multiple standard" (Vol. V. pp. 249-50). A year later in a paper published in the Revue d'Economie politique, he went over the same ground, almost literally translating the preceding article, but now modified his views by wishing to restrict the use of Lowe's scheme to cases where the cause of the change of prices is on the side of money. When the cause, or causes, of the change are on the side of the commodities, that is, when prices are falling because the commodities themselves are falling in "value," through improved production, he wishes no allowance to be made for this fall of prices, and no alteration in the sum of money paid. on the ground that in this case money has retained its "value" unchanged (pp. 249-52). Evidently the term "value" is here used in the sense of cost-value or



[•]In Economic Journal, Sept. 1892, p. 469. The passage will be quoted later.

esteem-value. The case imagined is one in which no improvement is made in the production of the money-material corresponding to the general improvement in the production of commodities. His later desideratum, therefore, is that money should be stable in cost-value or esteem-value.

CHAPTER VII

CONTINUATORS OF THE EARLY DOCTRINE OF EXCHANGE-VALUE

§1. We are now in a position to realize how much Adam Smith and Ricardo did to obscure the idea of exchange-value. For a full half century not a single prominent economist maintained the doctrine that money ought to be stable in exchange-value properly conceived, the very term in which this conception can be expressed having been stolen away from it and put to other uses. Yet, as we have seen, many of the early economists of the nineteenth century were irresistibly attracted by the meaning of the term they used, to treat the term at times with its right meaning. But there was also an undercurrent of economic writers who kept alive the earlier tradition, and not only took "value" always in the sense of exchange-value, but also used this idea in its proper meaning, as purchasing power over commodities, though sometimes with an infusion of wages among The body of thought represented by these writers gradually grew in force again, until it finally made its way up to the clear region of recognized eco-Some of those economists who have professed it, only to lapse away, drawn back by the ambiguities to which they were too much inured, we have just examined. We now have to trace the continuation of the early position, from the beginning of the nineteenth century, through its rigorous supporters. We shall find it developing so as to accumulate perhaps a greater number of adherents than any other doctrine about value.

It was in the use of the multiple standard, or price lists, that the old tradition survived. In England during the Bank Restriction period, 1797-1821, there was much discussion about the "value" of the currency, and there is reason to believe there was much appeal to the course of prices in order to show both that the paper currency had depreciated and that it had not depreciated. A reference to the opinion that the value of money is to be judged by "its relation to the mass of commodities" is found in a paper written by Ricardo in 1816.* Indeed, a small reading in the literature of the period brings to light several supporters of that opinion. Early in the period J. Wheatley, in Remarks on Currency and Commerce, London, 1803, praised Evelyn's measurement of the value of money by means of prices. Even on this side of the Atlantic, in the American Review of History and Politics, October 1811, Robert Walsh, in a Letter on the present State of the Currency of Great Britain, applied the test of prices, but with the mistake of wishing the list to be confined to those commodities "the value of which, on general grounds, is most likely not to be subject to much variation" (p. 245, similarly pp. 243, 249, cf. p. 275), thus showing trace of the idea of some other kind of value. In Eng-



^{*} Works, p. 400.

land again, in the House of Commons in 1811. Lord Castlereagh contended that the paper money had not depreciated according to "a sense of value in reference to the currency as compared with commodities." opponents seized upon the first part of this statement to poke fun at it, but overlooked that the principal point in the statement was in the comparison with commodities.* The next year Arthur Young published An Enquiry into the Progressive Value of Money in England as marked by the Price of Agricultural Products (London. 1812), in which he made progress in the construction of index-numbers by weighting the prices of the various articles according to their importance, but retaining Evelyn's inclusion of wages. But Arthur Young virtually denied the commodity standard, at least as limited to agricultural products; for he would not admit that the rise of prices, or at least of these prices, was due to depreciation of the currency, and attributed it to increase of population, taxes, and commerce, instead of seeking any "more remote cause" (pp. 119-20).† The

^{*}Cf. Tooke, History of prices, Vol. III. pp. 225-6.

[†]Young's reasons for not admitting depreciation are interesting in contrast with reasons recently advanced for not admitting appreciation. Thus he argued that if due to depreciation of money the rise of priceswould be uniform, which was not the case, pp. 112-14; that the rises did not correspond with the increased issues to which they were attributed. pp. 114-16; and that in general the phenomena were "not the offspring of a general cause, but dependent on appropriate and distinct ones," p. 123. He followed this up with An inquiry into the rise of prices in Europe, during the last twenty-five years, compared with that which has taken place in England, in The Pamphleteer, London, 1815, in which he sought to prove a general rise of prices elsewhere, so that the rise in England could not be imputed to its peculiar currency. His contention was really, then, not so much that there was no depreciation, as that the depreciation was not the fault of the paper currency. He approved of the rise of prices, and especially deprecated contraction and falling prices, p. 117 of the first work, and pp. 194 and 199 of the second.

commodity standard was more properly used, but with adjunction of land (as already noticed), by J. P. Smith in a work on The Elements of the Science of Money, London, 1813. A few years later Lieutenant-General Craufurd, in his Reflections upon Circulating Medium, London, 1817, speaking of the "erroneous" opinion that "the value of gold must be generally equal all over the world," asked, "what does the word value mean as so applied, but the quantity of other commodities that gold can command?" (p. 42 n, cf. also p. 13 n). Probably a perusal of the innumerable tracts and magazine articles which were written during that period would unearth many more references to the same standard.

Even Huskisson inclined to this position. Huskisson, who was a member of the Bullion Committee and became Secretary of the Treasury, was a determined champion of resumption, advocating it on the ground that "gold in this country (as silver at Hamburgh) is really and exclusively the fixed measure of the rising and falling value of all other things in reference to each other."* Once he said that next to gold "the best criterion of the required standard would be found in taking an average price of corn for a given period, jointly with the average value of labor."† But later he rejected the corn standard as no better than a potato standard, and showed preference for measuring the

†Speech, May 7th 1811, in Speeches, London, 1831, Vol. I. p. 201.



^{*}The question concerning the depreciation of the currency stated and examined, London, 1810, p. 23 (These words are paraphrased from Locke, op. cit. p. 44). "Depreciation" meant only the fall of the current money in the established metallic standard, p. 25 and passim. If the metallic standard itself fell in value "relatively to other commodities," it remained an equally good measure of their values "in reference to each other," p. 24; and though this fall would be an inconvenience to creditors, it was not an injustice calling for rectification by government, p. 86.

value of money by its "relative value to other commodities."*

In more theoretical style this position was advocated in opposition to Ricardo by Colonel Robert Torrens. In his Essay on the Production of Wealth, London, 1821, Torrens wanted the term "exchangeable value" to be confined to the sense of general purchasing power (p. 49); and although he admitted to Ricardo that exchange-values are according to costs of production relatively to one another at any given time and place. he clearly made the following distinction: "Even if a commodity could be found which always required the same expenditure for its production, it would not, therefore, be of invariable exchangeable value, so as to serve as a standard for measuring the value of other things. Exchangeable value is determined, not by the absolute, but by the relative, cost of production" (p. 56). Although Torrens altered his views about the means of obtaining steadiness in the exchange-value of money, from an advocate of inconvertible paper money in 1812 becoming a defender of the "Currency principles" involved in the Bank Act of 1844, he always consistently used "value" in the sense of exchangevalue. In his first work, an Essay on Money and Paper Currency. London, 1812, he had held that the depreciation of the currency compared with gold was only an "apparent depreciation," and not a real one, because the value of the paper currency in commodities was unchanged (pp. 174, 270, 273), † and the value of



^{*}Speech, June 11th 1822, *ibid*. Vol. II. pp. 146-7 and 149. But he still ridiculed the idea of "a standing committee of the House, to regulate the fluctuations and variations of prices," Speech, June 12th 1823, *ibid*. p. 217.

[†]Here his theory was better than in the contemporary publication.

gold had risen (p. 191). And in that work (pp. 44, 166), as in his last work, *The Principles and Practice of Sir Robert Peel's Bill of 1844*, London, 1848 (pp. 86, 87), he treated a rise of prices as a fall in the value of the currency, and reversely.*

§2. In 1822 Joseph Lowe, a merchant, published a work which, twice issued in London, once in New York. and translated into German, fell into neglect, but has since become famous for the small portions of it devoted to our subject. In this work, The Present State of England in regard to Agriculture, Trade, and Finance, Lowe suggested and advocated the formation of an official "table of reference," giving a "standard from materials." by which the varying "power of money in purchase" might be measured, in order that its variations could be corrected in contracts if the contractants so desired, since "it is of much more importance in all contracts of duration to look to the value than the numerical amount" (pp. 261-91, Appendix, pp. 85-101). The title of the chapter in which this scheme appears is "Fluctuation in the Value of Money or in the Price of Commodities"; and throughout there is identification of the idea of the "value" of money with its purchasing power over commodities, without interference from the idea of labor, or cost of production, wages being expressly excluded. What is desired, then, is that money should be stable in exchange-value, since the plan is to make allowance for its not being so.

In dependence upon Lowe the same scheme was a above noticed, of Arthur Young; but his facts were probably not so accurate.



^{*}In this connection it may be mentioned that Peel himself in his Speech, May 6th 1844, used "value" only in the sense of exchange-value. See especially p. 16 of the reprint in the same year (John Murray).

few years later advocated by G. Poulett Scrope, whose opinion on governmental monetary policy has already been quoted. In his little work Principles of Political Economy, addressed to his constituents, London, 1833, this economist has presented more precise views about our subject than almost any other writer who has treated of it. "Invariability," he says, "in respect to the quality it is employed to measure is absolutely indispensable to every standard measure. Stability of value is the first and most essential requisite of the instrument employed for the exchange of values" (p. 403).* And this, he had already said, is "stability of value as a purchasing power" (p. 401); and he speaks of changes in the "value" of money disturbing the holders of money, or of claims to money, because altering their command over goods (p. 402). He also refers back to an earlier chapter in which he had noticed that in political economy "value" must mean "value in exchange," and this must mean "purchasing power" (pp. 164-5), and had declared that value is "purely relative." and there cannot be "such a thing as positive, absolute, or real value" (p. 166), and that, value being, not estimation, but "comparative estimation as an object of exchange," "when used without reference expressed or implied to any particular commodity as its measure," the term "means general value, or value in exchange against goods in general" (p. 167n).† "To be invariable in value," he continues, "is to preserve the same relation to the mass of other commodities in general estimation;



^{*}Cf. also pp. 166n, 216, 422.

[†]Here he rejects labor both as a standard of value through the course of time, and as a regulator of relative values at the same time and place. Cf. p. 197n.

and in order for any particular commodity to possess this quality, it must increase in quantity-or, at least, in the facilities for its production—with the aggregate or average of other commodities; in which case alone any fraction of it will continue to command the same fraction of the aggregate of goods" (p. 405). He adds, in explanation of the badness of money variable in such value: "It is quite indifferent whether the change has been brought about by circumstances immediately affecting the production of gold or goods; -whether the real costs of producing the one or the other have increased The change in the relative facility of or diminished. producing gold and goods, in either case, occasions a change in the value of gold-and, consequently, in this country, of money - equally unjust and unfair upon debtors or creditors, both parties having contracted to pay or to receive money upon the faith of money continuing to remain invariable in value,—that is, in its relations to the mass of other commodities" (p. 406). The appeal to "the mass of other commodities," twice made, is precisely the standard rejected by Ricardo, so that here we have revolt against that great master of English economics. An enhancement of the "value" of money, or fall of prices, "owing to the facilities for producing gold not having kept pace with those for the production of the bulk of commodities," he regarded as unjust, on the ground that "the producing classes—the owners of labor, land, and capital, - have a right, founded on the simple principles of natural justice. to share amongst themselves exclusively the increased produce which arises from their own increasing numbers, skill, ingenuity, exertions, and productive powers." and that "the non-producing classes, who are their creditors for fixed sums of money, have no equitable title to any increase in the average quantity of commodities which these fixed sums command, since they contribute nothing towards such increase" (p. 410).* Scrope, of course, recognized that no commodity could be depended upon to be stable in value in this way (p. 405); nor, although he desired it. did he expect government to be granted the power of regulating paper-money with a view to keeping it stable in value (pp. 418-19). therefore recommended that government should at least afford to individuals the means of correcting the errors of the monetary standard, by carrying out Lowe's suggestion, and establishing what he now calls a "Tabular Standard," in the measurement of which he likewise would take into account only the prices of goods, making no mention of the wages of labor (pp. 406-7). His statements are thus as descriptive as possibly can be of the desideratum in money being stability in exchangevalue proper.

*§ 3. Scrope wrote at a time when prices were falling and the exchange-value of money rising, and when that condition was partly due to legislative action of the nation under the guidance of men who, like Ricardo, did not advocate stability of money in exchange-value, or who, like Huskisson, did not attach much importance thereto, and who afterwards, like McCulloch and Babbage, defended the course pursued in 1819 on the ground that the monetary standard had proved itself stable in cost-value or esteem-value. It was precisely against this state of things, and this theory, that Scrope protested. There were other protestors. Such were the so-called Birmingham School of currency writers, in



^{*}The reasoning continues to p. 414.

sympathy with whom was the historian Archibald Alison. who wrote England in 1815 and 1845; or, A Sufficient and a Contracted Currency, London, 1845. All these, if they did not insist upon the need of money being stable in exchange-value, wanted it at least to depreciate rather than to appreciate, Alison deprecating the latter especially, on the ground that it helps the increase of a few large fortunes and depresses the small fortunes of the middle classes, and so fosters inequality of conditions with its attendant moral and social evils. They desired to accomplish their aim by permitting greater freedom in the issuance of bank-notes, with the requirement of redemption only at the market price of bullion, that is, in variable amounts, according as the exchange-value of gold or silver rises or falls, their theory as to why the bank-notes should be stable in exchange-value being that of the so-called Banking School.

Apart from these in the method of accomplishing the same end, stood the historian Henry James, who was the anonymous author of a work entitled State of the Nation. Causes and Effects of the Rise and Fall in value of Property and Commodities from the year 1790 to the present time, London, 1835. James started out with the statement that "the question of prices is at the bottom of the whole" (p. 3, cf. p. 116); and he conceived of money as a stable standard of value if the rise of some prices were counterbalanced by a fall of others, so that "although particular prices might rise or fall, prices at large would remain the same" (p. 4). He found fault with the artificial measures which had first raised prices at large by the Bank Restriction, and had then caused their fall by the restoration of the old metallic standard

and its confinement to gold. He objected to estimating the "depreciation" of the currency solely by its relation to gold or silver, and wanted it to be estimated by the average price of produce and manufactures (p. 101). He especially condemned the appreciation of money, and would have preferred that upon the re-adoption of metallic money the metallic contents of the pound sterling had been reduced, in order to "support the then existing scale of prices" (p. 104, cf. p. 114); and even after the lapse of fifteen years he wanted to return to the old level of prices by such a reduction of the metallic standard (pp. 109, 113, 121, 135-7). In general, instead of seeking to obtain stability of money in general exchangevalue through regulation of the paper issues, he would prefer to aim at this object by altering the ratings of the coins (p. 173). We are, however, not here interested in the means recommended for the end desired, but with the conception of the end itself. James conceived only of the commodity standard, and wanted stability of money in exchange-value.

During this period other more theoretical economists, outside of England, also entertained the idea of exchange-value, though somewhat weakly. Thus in America Daniel Raymond, in his *Elements of Political Economy*, Baltimore, 1820,* consistently used "value" in the sense of exchange-value proper, often going so far as to identify it with "price" (I. pp. 57, 60, 65, 78, II. p. 353); and rejecting the labor standard (I. pp. 62-4), he applied the demand-and-supply theory to all values or prices (I. p. 183). He complained of fluctuations in the prices of commodities as violating all existing contracts (I. p. 241, cf. p. 250), for prevent-



^{*} References are to the third edition, in two volumes, Baltimore, 1836,

ing which he wanted to do away with bank-note cur-Evidently he took the term "exchangeable value" in its literal sense, and wanted money to be stable in such value. Similarly, in France, Blanqui, in his Précis élémentaire d'Économie politique, 1826.* treated "value" as exchange-value, measured by the quantity of other things procurable in exchange for the thing in question (pp. 19, 88), and wanted money to be such that we may feel sure about the same quantity of commodity always corresponding to the same sum (p. 80). Less definite was Rossi, who, in the first volume of his Cours d'Économie politique, Paris, 1840, rejected both the labor standard (pp. 152-7, 159) and the wheat standard (pp. 183-9). He devoted much attention also to showing that money is not an accurate measure of value in different times and places (pp. 157-82); and denied that we can have any perfect measure of value (pp. 149, 190). Now, Rossi divided value into value in use and value in exchange (p. 50); but, unlike Adam Smith and his followers, he wanted attention to be paid in economics to value in use (pp. 58 ff.), and treated value in exchange only as a "form of value in use" (p. 51). He denied the universal, and hence the scientific, validity of the cost-of-production theory for relative values (pp. 90-107), and accepted the demand-andsupply theory (pp. 77-89). In his disquisition upon the measure of value, he did not directly say that he was searching for a measure of value in exchange: but some allusions show that this was the case (pp. 163. Also his rejection of money and of wheat as good measures of value shows itself to have been because their relations to other commodities, or their

^{*}References are to the third edition, Paris, 1857.

purchasing powers, in the case of money illustrated by prices, are not constant (pp. 150, 177-81).* His conception of a thing constant in "value" was of one as to which the relation between its supply and the needs of the market is constant (p. 149); which fits exchange-value. His definition of "value in exchange" was also exactly that of exchange-value proper (p. 50); and he showed alarm at the prospect of falling prices, which he anticipated because of the lessened supplies of the precious metals from Spanish America (pp. 180-1). He would seem, then, to be desirous of a monetary measure that should be as nearly stable as possible in exchange-value.

§4. The middle of the century ushered in a new period, the course of prices being reversed and taking an upward turn, under the influence of gold from California and Australia, which gave rise to fears of greater depreciation than really occurred.† Under these fears Scrope's recommendation of Lowe's scheme was advanced as a means of saving the interests of creditors, by R. H. Walsh in his *Elementary Treatise on Metallic Currency*, Dublin, 1853 (pp. 94-6), and by J. Maclaren

^{*} On p. 185 he is not so clear.

[†]The rise of prices was not so great as carelessly expected, (1) because the new supplies were additions not merely to the existing supply of gold, with which people were inclined only to compare them, but, so long as the French bimetallism was effectual, to the existing supply both of gold and silver. This was especially insisted upon by Chevalier, who therefore expected great depreciation after the French reserves of silver should give out. And (2) because the new supplies of money and the incipient rise of prices encouraged greater production of other goods, thus producing increased demand for gold. This was especially insisted upon by Tooke and Newmarch in the last volume of the History of prices. Both these are reasons rather for the retarding of the fall of gold in exchange-value, and possibly in esteem-value, but by no means in cost-value.

in his Sketch of the History of Currency, London, 1858 (pp. 311-12, 366). Both these writers, however, more seriously urged the adoption of the silver standard. the latter thinking the adoption of Scrope's scheme to be impracticable, and the former holding it in reserve in case the silver standard should fail. At the same time a business man. E. Hill. in a work entitled Principles of Currency. Means of ensuring Uniformity of Value and Adequacy of Supply, London, 1856, especially emphasized the need of obtaining stability of "value" in money (pp. 29, 32, 65-6), which he hoped to obtain by regulating the supply of money automatically, by issuing interestbearing paper money like bills of exchange, and showed that by "value" he meant "value in exchange" (pp. 66-7), conceiving, like Rossi, of an article constant in exchange-value as one in which there is a fixed relation between the demand and the supply (p. 67).

More attention was early devoted to the subject of the new gold by an economist of some repute in his day. In The Australian and Californian Gold Discoveries, and their Probable Consequences, Edinburgh, 1853, P. J. Stirling treated of "value" wholly from the point of view of exchange-value, identified with purchasing power (p. 45n). He did this notwithstanding that he was an ardent advocate of the Ricardian cost-of-production theory of relative values, so much so that he rejected Mill's emendation in the case of money about the need of a change in the quantity produced before the change in cost can operate (p. 85), and even fell into the absurdity of allowing no influence upon prices in Europe to the great supplies of gold and silver at first brought from America upon its discovery by the Spaniards, until after seventy or eighty years the cost of producing silver sank (pp. v-vi, 157-8), when, he argued, the very next year after the introduction of an improvement in Mexico prices in Europe rose as a consequence.* Yet he employed this Ricardian theory as having to do only with relative values, and himself dealt only with relative values. He conceived of a change in the "value" of money as merely an inverse change in the prices of commodities (p. 61); and he admitted for a permanent and universal change in the "value" of the precious metals just four supposable causes. These are: "1st. A change of the conditions under which the metals themselves are produced, without a corresponding change of the conditions under which commodities are produced. If the cost of producing the metals is diminished, general prices will rise, and vice versa. 2d, An alteration of the conditions under which commodities generally are produced, without a corresponding change in the conditions under which gold and silver are produced. If the cost of producing all commodities be diminished - the cost of producing the metals being as before - . . . the price of commodities will fall, and the value of money will rise [and vice versal. 3d. An increase or diminution of the total amount of the precious metals in circulation, without a corresponding enlargement or abridgment of the total supply of commodities to be exchanged and circulated by their means; or 4th, An increase or diminution of the supply of commodities, without a corresponding enlargement or abridgment of the amount of the precious metals in circulation;"-which four he sums up by reducing to two: "namely, 1st, An alteration of the



^{*}Pp. 94-6, 126, 132-6, 138, 156-7. The trouble was also with his facts, for which he relied upon Adam Smith.

relative cost of producing commodities and the precious metals; or, 2d, A change in their relative quantities" (pp. 69-70).* It was in such "value," "in relation to commodities," that he wanted money to be stable (pp. 24, 25-6).

The expectation of a fall in the value of money, or the belief in its occurrence, drew attention also to the methods of measuring its extent. Then it was that J. Prince-Smith introduced the method of treating of variations in the value of money algebraically, in an article on Valeur et Monnaie in the Journal des Economistes, 15th Dec. 1853.† He, like others already noticed, conceived of a commodity the most stable in "general value" as one in which "the proportion between the supply and the demand is the most stable" (p. 374); and for money he wanted the commodity that varies least in such value, by which he shows that he meant general exchange-value not only by his whole treatment of the subject, but by saying that such constancy of money is obtained so long as "the general level of prices" is stable (ibid.). A little later Levas-



^{*}Cf. also pp. 208, 246-7n. The first of these two sets of conditions have been seen given by Torrens, and both by Scrope. The last set, about relative quantities, is not consistent with his own doctrine of "permanent value," applying only, in his view, to market value; but we are not concerned with any inconsistency on that subject. The four individual conditions are the four causes we have already noticed as having been later used, but not adhered to, by Laughlin.

[†]Reprinted in the third volume of his Gesammelte Schriften, Berlin, 1880, with some annoying misprints in the formulæ.

[†] Cf. also the little tracts, Der Markt, 1863, and Geld und Banken, 1865, in the first volume of his Schriften, pp. 18 and 68, 73 (and again, p. 245). He later became an advocate of bimetallism, as better providing such money, Währung und Münze, 1870, p. 258 (cf. p. 252). He now defined value (Werth) as indicating a relation not to one but to all things, and as purchasing power, measured by "what I can get for it," Die

seur, Newmarch, and Jevons made efforts to determine the depreciation by means of prices, and so treated the "value" of money as exchange-value; and during this period also, as we have seen, Macleod treated "value" in general as exchange-value.

At the same time some other economists, not specially concerning themselves with the gold question. began to treat "value" solely as exchange-value. did Courcelle Seneuil in his Traité théorique et pratique d'Économie politique. Paris, 1858 (Vol. I. pp. 243, 256, 259), who preferred bimetallism as giving money less variable in such value (pp. 344-5). Many years later he still used the term in this sense only, in Richesse et Valeur, Journal des Economistes, April 1883 (pp. 8, 14). notwithstanding that he held the Ricardian cost-of-production theory of relative values (pp. 9, 15-17). And in The Science of Wealth, Boston, 1866 (5th ed. 1869). Amasa Walker confined the term "value" to "power in exchange" (pp. 8, 9, cf. p. 175), and wanted money to be stable in such value or purchasing power (pp. 123. 127). He also sought to measure changes in the value of money inversely by prices (pp. 176-9, 481, 488), and would exclude consideration of special causes of variation in particular classes of commodities (pp. 183-4).* He was interested principally in the fluctuations in the value of paper money, and, like Raymond before him, opposed the freedom of bank-note issuance.

§5. About the time of the swing of the pendulum



neueste englische Münzfrage, 1870, p. 271; and similarly Zur Münzfrage im Volkswirthschaftlichen Kongress, 1871, p. 292, and Aus der Münzreformdebatte im Reichstag, 1871, p. 314.

^{*}Yet on p. 176 he would use the prices of articles least liable to variations on their own account; and on p. 483 he casually used the cost standard for the value of gold.

backward into a fall of general prices, Jevons in Enggland, Menger in Austria, and Walras in Switzerland were engaged in propounding a theory of value as esteem-value which is the foundation of the modern science of economics. We have seen that Professor Menger wants money to be stable in this kind of value, the theory of which he has spent so much trouble to develop; and that Jevons, after first wanting money to be stable in exchange-value, later came to treat the subject as if money ought to be stable in cost-value, although this had no connection with his new theory of value. We now have to deal with the views of that one of the triad who has devoted most attention to the subject of money.*

Professor Walras has a definite conception of what he wants money to be the measure of, and clearly expounds it; but he exhibits the evil of an imperfect nomenclature. In his earliest work *Éléments d'Économie politique pure*, Lausanne, 1874, he did sometimes make use of the term valeur échangeable, and spoke of this value as a property which certain things have of being bought and sold (p. 48). And he rightly conceived of it as exchange-value proper; for he said it is impossible for one thing to be constant in exchange-value unless all things are, because a change in the exchange-value of anything else affects the exchange-value of this thing



^{*}These three were preceded many years by H. H. Gossen, whose work, Entwickelung der Gesetze des menschlichen Verkehrs, und der daraus fliessenden Regeln für menschliches Handeln, Cologne, 1853, attracted little attention at the time, but has recently been republished, Berlin, 1889. It is possible that Gossen wanted money to be stable in exchange-value: see p. 203, and cf. pp. 201, 255-6 (of the 2d ed.). But his exposition is not clear. On p. 204 he seems to hold Locke's view that money ought to be stationary in its quantity. On p. 149 he asserts that money is a standard, not of value, but of labor-cost.

(pp. 167-8, 2d ed. 1889, p. 456),—not recognizing, however, that there may be compensation by opposite changes in two or more other things. But even in that work, and generally afterwards, he makes little use of Yet he sometimes, apparently, uses the simple term "value" in the sense of exchange-value, as when he tells us all values are essentially relative (p. 147, 2d ed. p. 172). He even says that, speaking in a general manner, there are no values, but only relations of values (p. 189):* which can hardly bear other interpretation than that exchange-values are relations of esteem-values. In general he now uses the term "value" in the sense of esteem-value, and one of the great services he has rendered to economics is the analysis of this kind of value. He teaches, following Burlamaqui and his own father. Auguste Walras, that the causes of "value" are utility and limitation, which together he calls "rarity" (pp. 101-4, 157, cf. p. 162). Rarity, so defined, he also identifies with the intensity of the last want satisfied by the quantity of the thing possessed: whereby he is enabled to enunciate the supply-anddemand theory of relative values in the form, which he regards as a capital principle in economics, that "the values of commodities are proportional to the intensities of the last wants satisfied, or to the rarities." † Therefore, values and rarities being proportional to each other, he identifies them, saying that "the elements of variation of rarities are the elements of variation of values" (ibid.): and he often conjoins them in one com-



So again in Monnaie d'or avec billon d'argent régulateur, 1884, reprinted in Études d'économie politique appliquée, Lausanne and Paris, 1898, p. 4.

[†]D'une méthode de régularisation de la variation de la valeur de la monnaie, Lausanne. 1885, p. 1. (In Études, p. 26).

pound phrase. In thus identifying not merely relative values with relative rarities, but values, simply spoken. with rarities, it is plain that he does not refer merely to exchange-values, but to esteem-values. when in his earliest work he tells us that one of the first qualities in money is fixity of "value" (p. 172: repeated in 2d ed. p. 425),* we might be at a loss as to whether he wants fixity of esteem-value or fixity of exchangevalue. But he soon sets all doubt at rest, and clearly states his position, though in a manner unnecessarily cumbersome. In a paper published in the Reveu de Droit international, Dec. 1st 1884, entitled Monnaie d'or avec billon d'argent régulateur, and recently republished in a collection of his "Studies," he consistently confines his use of the term "value" to the sense of esteemvalue: telling us, for instance, that if two things change relatively to each other the value of the one may fall or that of the other may rise, according to variations in their final utility †-a statement which we know to be true only of esteem-value. And in the sequel to that paper, the Mémoire read before the Société vaudoise des Sciences naturelles, May 6th 1885, reprinted as a separate brochure. 1 part of which was incorporated in the second edition of the Eléments, rewritten in 1889. || and republished in the recent Etudes, he says that variations in the average of general prices do not indicate the variations in the "value and rarity" of money (pp. 10, 16);** which is true of the esteem-value of money.

^{*}See also the article De la fixité de valeur de l'étalon monétaire, Journal des Économistes, Oct. 1882, incorporated in the 2d. ed. of the Éléments, 35e Leçon.

[†]In Etudes, pp. 5-6.

ID' une méthode de régularisation, etc., already referred to.

he tells us plainly—and repeats it in the Mémoire, and in the several republications—that what is desirable in money is not fixity of its "value and rarity." that is, not fixity of its esteem-value, but variability of its "value and rarity" (esteem-value) in conformity with the mean variation in "value and rarity" (esteem-value) of commodities in general, or social wealth, so that there shall be fixity of the relation between its "value and rarity." or esteem-value, and the "values and rarities." or esteem-values, of all commodities.* Or, to be more definite, he says he wants the "power of acquisition." that is, the purchasing power, of money to be stable: † or he wants the variation of the "value and rarity" of money to be such that the prices of things should not on the average rise or fall. 1-and, again, he prefers silver to gold as standard money because under it prices would probably be more stable: | and under the present gold standard with limited coinage of silver he advises that the coinage of silver should be so regulated as, by increasing or decreasing the quantity of metallic money (all uncovered paper money being banished), shall prevent the fall of prices which has been going on.** and shall in the future keep the general level of prices steady -a scheme which differs from that of many advocates of regulated inconvertible paper money only in the kind of money wherewith the object, the same in all cases, is to be attained, and agrees in the object also with the scheme of Lowe, Scrope, and Jevons. Thus Professor

^{*} Monnaie d'or, in Études, pp. 9, 10; D'une méthode, pp. 12, 16, 17, 18; Éléments, 2d ed. pp. 411, 432, 442.—Remember that the relation between esteem-values is exchange-value; wherefore a fixity of that relation is a fixity of exchange-value.

[†]D' une méthode, p. 12. ‡Éléments, 2d ed. p. 431.

^{||} Ibid. pp. 443-4. ** Cf. ibid. p. 449.

Walras, like those economists, wants in money the nearest possible approach to invariability in exchangevalue, and, unlike the latter, thinks this object attainable and worth striving for. But it is unfortunate he does not use terms showing that while he wants variation of money in one kind of value, he wants invariability of money in another kind of value. The title of his memoire read before the Vaudois Society was, "Of a method for regulating the variation of the value of money." Thus he tells people that what he thinks desirable in money is a certain variation of its "value," instead of saying that what he wants is invariability of its exchange-value. This does not do justice to his own thought. leading and it has misled. In a criticism of Professor Walras's scheme Mr. Adolph Coste repudiates the idea that money should be variable in "value," and even that its "value" should vary with the mean variation of the "values" of commodities, affirming, with all economists, that what is wanted in money is "fixity of value."* Here is mere logomachy, and Professor Walras has needlessly put himself in the wrong by his imperfect terminology. Mr. Coste wants the "value" of money to be steady while the "values" of commodities fall. He wants invariability in the esteem-value (or cost-value) Professor Walras wants the "value" of of money. money to fall with the average of the "values" of commodities. He wants invariability in the exchange-value And just as Professor Walras wants varibility in the esteem-value of money, so Mr. Coste wants variability in the exchange-value of money. If the bare term "value" be used, as it has been used, professedly.



^{*}Note sur un projet de réforme monétaire de M. Léon Walras, in Les questions contemporaines, Paris, 1886, p. 565.

by economists without end, in the sense of exchange-value, it is Professor Walras who wants money to be invariable in "value." But if this term be used in a novel and unacknowledged confinement to the meaning of esteem-value, then it is Mr. Coste who wants money to be invariable in "value." It is this use of the term adopted by Professor Walras himself that puts an appearance of right on the side of Mr. Coste. Yet the difference in real opinion between these two economists is evidently not to be decided by the mere use of a term.

Rather curiously, the subject has been treated in a similar manner by another economist, but with the same result reached from the cost-of-production standboint. In his Conversations on the Principal Subjects of Political Economy, Philadelphia, 1882, Mr. William Elder says "it is the labor-cost of production that rules the exchange-value" of commodities (p. 119), and gold and silver "have a certain approach to constancy of value, because the cost of their production does not vary much within the periods that private contracts for payment usually run" (p. 122). Yet, although he admits that debts ought to be paid in the same "value" in which they were contracted (p. 162), he departs from "value" in the sense of cost-value, and really wants money to fall in such value, as he says it is proper that money shall become cheaper along with other commodities (pp. 162-3), and does not find fault with gold and silver for depreciating so long as their cheapening is not faster than the cheapening of goods (p. 161, cf. p. 162), and speaks of a fall in the cost of production of money as a blessing, lightening the burden of debts (p. 118). He. too, thus wants money to fall in the only kind of value

which he calls "value;" and yet he really wants it to be stable in exchange-value.

§6. We have now come to the bimetallic era. Almost all the bimetallists - the few exceptions have already been noticed - hold that money ought to be stable in exchange-value. Wolowski, the founder of the modern theory of bimetallism, laid much emphasis upon the need of money being stable in "value," and of the duty of making it as nearly so as possible.* calling this the economic problem, or the problem of economic fixity, in distinction from the mere keeping of the coins invariable in weight, which he called the technical problem, or the problem of material fixity.† But he made no reference to a difference of meaning in the term "value," and so it is not plain on the surface which kind of value he had in mind. Some passages, however, show that he meant exchange-value, as when he says people sell goods, not for a certain quantity of a certain metal, but for purchasing power (pp. 49-50), and again, when he says falling prices are much worse than rising prices (p. 152). The same may be said of the other protagonist of bimetallism, Ernest Seyd, who vainly warned against the danger of falling prices. The later advocates become more definite. Cernuschi. the champion of international bimetallism, spoke plainly of wanting prices, and the purchasing power of money. to be stable. The clearest teaching on the subject was made by Dana Horton, who introduced bimetallic theory



^{*}L'or et l'argent, Paris, 1870 (a collection of papers written between 1865 and 1870), pp. iv, xxi, xxx, 6, 24, 222, 248, 275, 277, Enquête p. 95.

[†] Ibid. pp. xvii, 20-1, cf. p. 50.

[†]The clearly expressed views of Prince-Smith, the leader of bimetallism in Germany, have already been noticed.

[#] E. g. in Nomisma, or legal tender, New York, 1877, pp. 16, 17.

in America. Horton had no conception of "value" except as exchange-value, determined in the case of money by the average of prices,* without regard to the special causes affecting the prices of particular commodities,† and, calling the multiple standard a "standard of desiderata." I he looked upon it as "the key to the entire theory of money." || The normal supply of money he defined as "that supply which will keep a general level of prices constant," ** and maintained not only that "equity demands that the average of general prices shall be the guide." but that "the desideratum for the interest of a people is that the value of money should remain on the average permanent."†† His whole doctrine is summed up in these words: "As to the general proposition, that it is the duty of the State to maintain good money, I doubt whether there are responsible disputants who would commit themselves unequivocally against it. Nor are there many who will undertake to deny that the permanent quality of good money is stability of value, or that the more important signification of stability of value lies in stability of average

^{*} Silver and gold, Cincinnati, 1876, second edition, 1895, p. 68.

[†] The silver pound, London, 1887, p. 5n. He here says "The plain meaning of appreciation is the rise, let us say, of gold relatively to things vendible, which takes place as prices fall; depreciation is that fall of gold which takes place as prices rise," and denounces as a "fallacious use" "the effort to appropriate the words for certain special instances of rise or fall of prices; so that, for example, they shall only be used when the speaker thinks the change has been produced by certain special causes, or when he thinks it is permanent, or that it is progressive."

^{\$\}frac{1}{2}Silver and gold, p. 37; The silver pound, pp. 3-6.

[|] Silver and gold, p. 40.

^{**} Ibid. p. 69; cf. Silver in Europe, New York, 1890, p. 82.

^{##} Silver and gold, pp. 42 and 70-1 respectively.

purchasing power."* In general it may be said of these leaders, and also of most of their followers, that they present the appearance of being bimetallists because they hold this doctrine about the need of stability of money in exchange-value; while even the best of their militant opponents, so far as they combat this doctrine, give the impression of holding that money should be stable in some other kind of value (they are not particular as to which), because they are advocates of the gold standard or of the status quo.

§7. By now the idea that "value" means exchange-value, and that money should be stable in such value, has become so general as to seem almost to be the orthodox doctrine. For the majority of theoretical economists, without regard to their attitude toward bimetallism, have insensibly come to adopt this position. In reviewing these economists we may, however, divide them into those who favor bimetallism and those who are lukewarm or who more or less strongly oppose it.

Among the former belongs the late Professor Sidgwick, who, in his *Principles of Political Economy*, London, 1883, paid considerable attention to this subject. Of "value" he conceived mostly as exchange-value (cf. p. 57), and would expressly confine the phrase "the value of money" to purchasing power, or "exchange value measured in commodities other than money" (p. 248), or "exchange value relatively to goods" (p. 260). He distinguished Ricardo's "real



^{*} The Silver pound, p. 33. Similarly in Proceedings of the International Monetary Conference, in Paris, 1881, Cincinnati, 1881, p. 312; he here prefers depreciation to appreciation.

value" from his "exchangeable value," and the two ways of measuring them, and (like Torrens and Bailey) criticized Ricardo for not perceiving the distinction (p. 60). Although he himself was willing to accept this conception of "real value," so as to say that when things are produced with less labor they have grown "really cheaper" (p. 61), yet he considered knowledge of such variation in the "real value," or cost of production, of a given ware, though interesting and important for some purposes, to be of little assistance "in measuring its variations in exchange value relatively to things in general" (p. 62). It is variation in such exchange-value that he thought we all mean when we. speak of a thing having fallen in "value," and he thought "we should commonly speak of a thing as having fallen in value, when we found that it had fallen relatively to all other things, even though we might know the change to be due to causes affecting primarily these other things" (p. 59). He therefore devoted some space to describe a method for measuring variations in the "value," or purchasing power, of money by means of prices (pp. 66-8). He would seem. although here he is not clear, to make no use of wages in his lists (see pp. 69, 79-80). The single wages standard, at all events, he flatly rejected, saying that "when we ask whether gold or anything else has risen in value," we certainly "do not mean to inquire whether it will purchase more of a certain arbitrarily selected kind of labor. This," he continued, "may be in itself an interesting question to investigate, but it can hardly be maintained to be the real meaning of the former question, and it is no solution of the difficulties of the first problem to substitute for it the second" (pp. 63-4).

We may be sure, then, that when he spoke of "stability of value" as a requisite in money, and wanted the State "to guard so far as it can against fluctuations in the value of the medium of exchange," and recommended bimetallism as preferable to monometallism on this account (p. 453), he meant by "value" exchange-value. In him, in fact, is seen the force of the popular usage of words overcoming the authority of the masters of English economics.

Professor J. Shield Nicholson throughout his Treatise on Money and Essays on present monetary problems, Edinburgh, 1888, conceives of "value" only as purchasing power over "things in general" (pp. 30-1), and says "it cannot be too often insisted on that the real meaning of the value of money is its value as compared with things in general - that is, its value as determined by the general level of prices" (p. 63), varying inversely with them (pp. 45-6, 61-2, 226). In money he wants "stability of value" (p. 25), or such a steadiness of its relation to things in general that "the general level of prices" may be steady (cf. pp. 226-7); and he recommended bimetallism as conducing to greater stability of the general level of prices (pp. 233, 246, 273, 275). He has also devoted a paper to develop a method for "The Measurement of Variations in the Value of the Monetary Standard," entirely confined to measuring its purchasing power by means of prices (pp. 298-331). without regard to special causes affecting particular prices (pp. 330-1, cf. pp. 63, 335-6). Labor, he noticed, "in passing," is to be rejected as a standard unit for measuring value, because of the improvement in its efficiency which is constantly being made (p. 322, cf. p. 22)—the same reason that we have already seen later

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employed by Professor Ross and others.* Yet he would include wages in the lists.†

In Principles of Economic Philosophy an economist likewise favoring bimetallism for providing money more stable in "value" (p. 368), and making "a better equipoise against commodities" (pp. 363-4), the late Mr. Van Buren Denslow, although defining "value" as a degree of comparative esteem (p. 79), and "natural value" as value thought to be possessed by a commodity "by reason of the labor spent in producing it" (p. 107). vet denied that labor can be a measure of value (p. 85). and took even "intrinsic value" in the sense of general exchange-value, defining it as "the permanent value a commodity has when measured in the average of other commodities" (p. 107). He judged the fitness of the precious metals to serve as money, by their greater or less stability in value "relatively to other commodities" (p. 344), and also "relatively to labor and commodities" (p. 345). Thus he was not so precise as might be desired in his conception of "value" as exchangevalue: but it is evident that he used the term in this sense, and wanted money to be stable in this kind of value.

^{*}In his Evidence before the Gold and Silver Commission he wavered somewhat on the question whether appreciation of money is not good if arising from causes residing in commodities, *First report*, 1887, qq. 4037, 4050, 5705-6; but not so qq. 4154, 5403, 5419, 5421, where he wants the standard to be stable in purchasing power, and qq. 5708, 5710, where he wants the currency to increase with the increase of commodities.

[†] Op. cit. q. 5448, and in Principles of political economy, Vol. II. 1897, p. 5. In this last work, while still saying that stability of value (conceived as exchange-value) is an important requisite in money, p. 18, he seems to find little practical consequence in its deviation, Vol. III. 1901, pp. 63-4.

[‡]But on p. 356 he said the "intrinsic value" of gold and silver "keeps parallel with the cost in labor of producing."

Most definite on our subject was Professor Sherwood. who accepted at least the theory of international bimetallism. In his History and Theory of Money. Philadelphia. 1893, of money in deferred payments he said: "Any system of credit or deferred payments must rest upon the certainty that a person who waits for payment until some future day shall then receive the same value which he would have received if the transaction had been consummated at once" (pp. 58-9); wherefore "stability of value is the great requisite of a money which is to be" the standard for this purpose (p. 59). Hereupon he judged of the proper volume of money in a country as that which is enough to keep prices about even (p. 97): and, after asserting that government has some power over the value of money (pp. 219-20), he said: "The ideal that we want so far as price adjustment is concerned, is to keep prices stable, so that a contract which is payable in one year from now can be paid with just the amount of commodities which will then represent the value stated in the contract of to-day. That is what we want.—a stability of prices that persists from one year to another, and from one generation to another. . . . The object at which we aim is, as it seems to me, a currency which shall keep prices stable. a currency which shall expand, therefore, with the expansion of trade and commerce and development generally" (p. 225). And again he reiterates: "Statility of prices is the ideal sought" (p. 389).

And in a work entitled Money and its Relation to Prices, being an inquiry into the causes, measurement, and effects of changes in general prices, London, 1896, Mr. L. Price has likewise confined his use of the term "value" literally to the sense of exchange-value,

and has taken "variation in the value of money" to be synonymous with a variation of its purchasing power. or inverse alteration in general prices (cf. pp. 10-11, 37. 156, etc.), whether the cause lie on the side of commodities or on the side of money (cf. pp. 66-7, 114-15), the question of causes forming a separate inquiry (as on pp. 176-8). Therefore, early in the work, he asserts that justice demands repayment of a debt in the same "purchasing-power" as was loaned (p. 40). This is said without argument; but his later inquiries into the effects of changes in the general level of prices give a rational and empirical basis for this position, marred only by lack of consideration of the claims for the advantages of stability of money in other kinds of value. It deserves notice that Mr. Price clearly recognizes that wages should be excluded from the list of articles whose prices are averaged (p. 175). He wants the general level of prices to be stable and wages to rise, and if this cannot be, he prefers rising prices with higher-rising wages to falling prices with stationary wages (pp. 59-61). His standard is solely the commodity standard. He concludes in favor of bimetallism, the influence of which toward steadying prices he proves to the extent the subject admits of proof (pp. 161-7, 180-1).

§8. Among the economists unfavorable to bimetallism, who nevertheless hold that the value in which money ought to be stable is exchange-value, the first place may be accorded to Professor A. L. Perry. In the numerous editions and replicas of his first work, the Elements of Political Economy, New York, 1865, Professor Perry has remained faithful to the position that political economy is the science of exchanges, or what he considers the same thing, of "value," consistently

using this term in the sense of exchange-value only. In fact, he proclaims, faintly echoing Mohammet, that "value is value, and there is only one kind of it." * and always defines this one value in any of three different forms, which agree at least in being applicable only to exchange-value, extended to cover services in general. Thus he says: (1) "the value of anything is something else already exchanged for it; 1 (2) "value is the relation of mutual purchase established between two things," or "between two services;" | (3) "value is the relative power which one thing has of purchasing other things." ** Likewise he repeats that "it is not possible that there should be any general rise or fall of values:" † and asserts that improvements in production, which reduce labor-costs, affect the values not only of the articles directly affected but also of other things exchanged for them, II so that "no effect at all is produced on values. if the improvements have gone on equally in all directions." since now "everything exchanges just as before," || ||-



^{*}Elements, 5th edition, 1869, p. 227, Introduction to political economy, 1877, ed. of 1881, p. 32.

[†]The term "service" is used by Perry, as by so many other economists of Bastiat's following, in the senses both of (1) satisfaction rendered to a person, and of (2) effort exerted by a person—s. g. Elements, pp. 57, 61, 67, 76, 111, etc. If we eliminate the second meaning, as something distinct, really being the same as labor, which is of no utility or value in itself, the conception of exchange-value is given its proper connotation, and is freed from overlapping with cost-value or esteem-value.

[‡]Elements, p. 49; similarly Introduction, pp. 27, 39, Principles of political economy, 1890, p. 46.

^{||} Elements, pp. 49, 56; so also Introduction, p. 40, Principles, p. 46.

^{**} Elements, p. 51, cf. p. 77, and Introduction, pp. 25, 26.

^{†+}Elements, p. 78; Political economy, 1873, edition of 1887, p. 152, Introduction, p. 65, Principles, pp. 49-50.

IIE. g. Elements, p. 224.

^{###}Blements, p. 110. On p. 79, making the supposition of successive

all which we know to be true only of exchange-value. Treating of money in its function of a standard, although denving the possibility of our having any perfect measure of "value." he admits we can obtain "a sort of rough guide to the power of a thing to purchase things in general."* Consequently, while "the denominations of money, which is the best attainable measure, can never have a meaning absolutely fixed, but slide up and down the scale along which the purchasing power of money as a medium is moving,"† yet, within the limits attainable, "the only way to keep the denominations steady in meaning is to keep the medium steady in purchasing power." I No wonder, then, that he tells us, not merely that money ought to be stable in "value." || but that when a debt is due him he wants back "just as much purchasing power as I loaned, with the interest on the same," ** and that, in like manner as other measures ought to be steadfast in their peculiar qualities. "so, as far as it is possible in the nature of things. ought the medium and hence the measure of values to represent year in and year out a uniform degree of purchasing power." ††

improvements, he says: "As soon as the improvements affect all the commodities equally, value stands just as it did before the first improvement was made;" which is repeated in the same words in *Political economy*, p. 153.

^{*}Introduction, p. 64. †Elements, p. 224.

[†] Introduction, p. 288. This is in a summary at the end of a chapter. Curiously, the original passage reads: "The only way to keep the measure of values steady is to keep that thing steady, whose denominations furnish the measure," p. 238, and the context shows that what is meant is fixity of the intrinsic value of money. The explanation lies in the fact that he regarded gold as "the steadiest in purchasing power of valuable things," p. 288, etc., and considered it sufficiently steady for practical purposes.

^{||}Introduction, pp. 243-4, Principles, p. 395.

**Elements, p. 222. ††Elements, p. 225.

Similarly Mr. A. S. Bolles, in his Chapters in Political Economy. New York. 1874. defined "value" as an estimate placed on one commodity in terms of another (p. 52), and, saying: "This rise of prices [since 1849] represents a real diminution in the general purchasing power of gold to that extent" (p. 106), treated this also as a decline in the "value" of gold (p. 107). This decline of gold, as also of silver, he believed would continue indefinitely (pp. 108-12); wherefore, stability of value being the chief requisite in money (p. 114), and the material indifferent (p. 115), he thought that the reign of the precious metals is soon to cease (p. 112) and that they will be supplanted, in the monetary function of measure of value (divorced from the function of medium of exchange, assumed by paper*), by some metal more stable in value, as for instance iron (pp. Exchange-value is also the idea of value 115-16). entertained by Professor Simon Newcomb. In an article on The Standard of Value, in the North American Review for September 1879. Professor Newcomb wrote: "What we commonly call purchasing power may also be called in economical language absolute value" (p. 225); which statement he repeated in his Principles of Political Economy, New York, 1886, by saying that "the absolute value of the dollar varies inversely as the scale of prices" (p. 213).† In both these



^{*}Cf. Jevons.

[†]Notice also the heading of the chapter in which this passage occurs: "The measure of value by an absolute standard."—He puts aside special causes; for he places the one cause of a general variation of prices in variations in the supply and demand of a circulating medium, and of credit, The standard, p. 234; and he expected a slow appreciation of gold, arising from the increasing demand for it, resulting from a continual increase of wealth, pp. 228, 236.

writings he favors the "multiple standard of value," and approves Lowe's scheme in principle, though finding fault with its probable practice; and he would rather have some means of procuring stability in the value of money itself, as by altering the metallic contents of the dollar, or the quantity of bullion in which credit money is redeemable. In general, although inverting the usual order and preferring appreciation to depreciation, he maintains that "all we want is a dollar of uniform value, as measured by the average of commodities."

So also in Germany, in his work Das Gelt, Berlin, 1873,** when treating of the various functions of money. among which is its serving as the "measure of value" (Wertmass, p. 9), Professor Knies occasionally shows that he would measure this measure itself by the changes in prices, or by the quantities of commodities purchasable with a given sum (cf. pp. 174, 189), and that he views its proper functioning to be its remaining stable in exchange-value. †† And in France, Professor Jourdan, in his Cours analytique d'Economie politique. Paris. 1882, has defined "value" as purchasing power (p. 426. cf. pp. 438, 464, 467), measurable by the quantity of any commodity exchanged for the thing in question (p. 431, cf. p. 437), and, in the case of money, inversely by prices (cf. p. 466). He rejects labor as a standard of value (p. 438), and says that a rise or fall of all "values" is inconceivable (p. 435). He thus uses



^{*}The standard, pp. 226, 228, 234; Principles, p. 214.

[†]The standard, pp. 235-7.

[†] Ibid. pp. 230-3. || Ibid. p. 234.

^{**} References are to the second edition, revised, Berlin, 1885.

^{††}Tauschwert, pp. 16, 173, 189, 190-1, cf. p. 336; Verkehrswert, p. 172; Sachwert, pp. 190, 435; Vermögenswert, p. 416.

"value" consistently in the sense of exchange-value. It is in this sense that he speaks of a "great uniformity of value" as a quality in the precious metals fitting them to serve as money, believing that between their rare perturbations there are permanent price-levels (p. 461). Again, in England, Lord Goschen, in his paper On the Probable Results of an Increase in the Purchasing Power of Gold, in the Journal of the Institute of Bankers. London, May 1883, avoided the ambiguity of the term "value" by confining himself to speaking of variations of prices, or of the purchasing power of money: but showed that he viewed stability of purchasing power (or exchange-value proper) as the correct condition in money (see especially pp. 284, 285, 306). In his earlier Theory of the Foreign Exchanges (eighth edition 1875), he had used the term "depreciation" in the sense of "smaller purchasing power" (p. 63), or rise of prices (p. 65).

§ 9. Finally, there are even militant anti-bimetallists who have used "value" in the sense only of exchange-value, and have expressed desire that money should be stable in this kind of value.

Dr. Theodor Hertzka, who was for a long time an untiring advocate of the single gold standard, has all along held this position. In his two earlier tracts, Die Goldrechnung in Österreich-Ungarn, Vienna, 1879, and Das Wesen des Geldes, Leipzig, 1887, he laid emphasis upon the need of money having "constancy" or "relative constancy of value" as its "cardinal property," because of its being the measure of value (1st, p. 12; 2d, p. 16); and indicated that by "value" he meant exchange-value, not only by employing this term in connection with the term "purchasing power" (Tausch- or Kaufkraft) in

other passages to the same effect (2d, pp. 5, 17, 22), but especially by making the statement we have seen in Scrope, that constancy of cost of production of the money material will cause constancy of its "value" only if there be similar constancy in the cost of production of other things, and that what is wanted in order for the purchasing power of money to remain stable is neither fixity of its cost of production nor fixity of its supply. but variation of both these factors in proportion to the variation of the same factors in the mass of goods (2d. p. 37). That this publicist recommended the adoption of the gold standard in Austria-Hungary, was due to his preferring for his country a money which should keep its value at the same level with the value of the money of its commercial neighbors, and to his laving much stress also upon the quality in money of convenience in handling. Later he modified these views, and in his pamphlet, Das internationale Währungsproblem und dessen Lösung, Leipzig, 1892, he advocated, for all the world, a composite gold-and-silver standard, resembling Professor Marshall's symmetallism. In this work he even goes so far as to prefer before constancy of exchange-value a slow and gradual depreciation of money. or rise of prices, although recognizing that this violates the ideal of a measure of value (pp. 8-9). position, however, constancy of exchange-value is still made the norm, and especially is repudiated any leaning toward the standard of cost-value or esteem-value.

In America many slips into this position may be found in the recent careless campaign literature on the subject. The most emphatic and really serious among the writers of this period is Mr. W. L. Trenholm, who, in *The People's Money*, New York, 1893, frequently

insists that money ought to be stable in value (pp. 49. 80, 103), and that justice demands that debts should be paid in the same value, value being the essence, the denomination and the substance naught (p. 112). furthermore definitely states that what is desired is stability of purchasing power (p. 85), and most unequivocally that "the practical test of stability in the value of the money in use is general stability in prices" (p. 88), without any reservation about the causes of changes, expressly rejecting any other test. however, he says that what is wanted is stability in "real value" (p. 108), and asserts that stability of value is assured if one metal be used by all the world and a fixed unit of this be established in every country permanently (pp. 84, 88, 105); which is fixity merely of intrinsic value. But towards the end, again, after rejecting the labor standard (pp. 249-53), he offers as one reason in favor of the single gold standard the allegation that gold is more stable than silver in purchasing power (p. 261).

In a paper included in a book entitled A Dollar worth a Dollar, New York, 1895, Professor W. R. Webb wrote: "A standard of value, invariable, immutable, always possessing the same purchasing power, is the ideal" (p. 76); and gave this as a reason rather for not altering the monetary standard now, than as a reason for preferring gold to bimetallism in general. In a paper on the Quality of Money and Wages, in the New York Reform Club's rublication called Sound Currency, for Sept. 1st 1895, Mr. F. L. McVey regards "stability of value" as "an essential quality of a medium which is to be permanently used" (p. 3), and says "the quality of money is indicated by its purchasing power" (p. 2),

and always treats "appreciation" and "depreciation" as variations in prices (pp. 5. 8. 9. etc.). He makes, however, the curious statement that "the greater the purchasing power of a piece [of money] of a given denomination, the 'better' the money is said to be" (p. 2).* and advocates the gold standard in preference to the silver standard because he thinks appreciation better for the working classes, their wages falling less than prices. so that the purchasing power of their wages increases. But this may be interpreted merely as preference for appreciation before depreciation, with use of stability of exchange-value still as the norm. Another writer, Mr. C. S. Patterson, presenting An Argument for the Gold Standard, in Present Problems. New York, Feb. 15th 1897, makes a statement as clear as his argument: "The standard . . . must have, as a commodity, as stable a market value as possible, and, in order to secure the stability of the market value, the relation between the supply and demand must be as constant as possible." the minor premiss following: "Gold alone fulfils these conditions" (p. 9).†



^{*}Perhaps he had reference to the following statement by Edward Atkinson in an earlier issue of the same series, July 1st 1896, The money of the nation: shall it be good or badf: "What every man wants is money which will buy the most goods, the most food, the most fuel, the most clothing," p. 7. It may be noticed that in Legal tender money, in the same series, Sept. 15th 1898, Atkinson repudiates the idea that currency should be regulated with a view to securing stability of prices, p. 310.

[†]He, too, says: "The best money is the money of greatest purchasing power," p. 5.

CHAPTER VIII

MEDIATORS BETWEEN THE TWO STANDARDS

§1. Beside the economists who have a definite opinion about the need of money being stable in one or another kind of value, and the economists who are confused between the needs of its being stable in "value" in two or more senses of the term, there are economists who have a definite opinion about the propriety of money being stable in a mixture of two kinds of value. These are avowed mediators between the commodity standard of exchange-value and the labor standard of either cost-value or esteem-value. Some have desired to mediate exactly, that is, to adopt a position halfway between the two standards. Others have been content merely with some midway position, inclining perhaps more on the one side than on the other.

A position merely inclining toward the labor standard from the commodity standard, attaching itself more closely to the latter, we have seen to have been assumed by Professor Ross, in 1892. An exactly halfway position between the two standards we have seen adopted by Mr. Farquhar, in 1895. Another attempt seemingly to mediate equally between the two standards we have seen to have been made by Professor Clark. Professor Clark's position calls for a few words of criticism.

Professor Clark's conception of the standard is based, as we have seen, upon the idea that the gains from improved production should be divided equally between the creditor and the debtor. The doctrine that the product of a normal day of labor will do this is based by

him upon the supposition that the laborers, when they see their product increasing, will take the advantage so obtained both positively and negatively - positively by getting more products, negatively by expending less labor. And for this standard to act properly it is necessary that they should take the advantage in these two ways about half and half. But Professor Clark himself contemplates the possibility of the laborers not taking the advantage so much in reduction of labor as in increase of products, and admits that then his ideal standard will have "to represent slightly less than the labor day practically adopted," * that is, will have to be doctored by reference to the commodity standard. might as well from the first adopt the position that the ideal unit ought to be such as to command an average quantity of products ever increasing at a rate half that at which the average productivity of labor is increasing. or, reversely, decreasing at half the rate at which the average productivity of labor may be decreasing. standard would then be a combination of the commodity standard and of the labor standard (with the earnings of labor measured in hours of work). That such a standard can be obtained automatically, by taking the productivity of the labor-day as the standard, because of a theory that laborers naturally divide the gains of improved productivity half positively and half negatively, is an extraneous doctrine, interesting as theory, and, if true, convenient in practice. But it is not necessary in practice, since the same end may be obtained by halving the results of the commodity standard and of the labor standard, separately calculated. Nor is it held to be universally true in theory even by

^{*} Political Science Quarterly, Sept. 1895, p. 400.

Professor Clark himself. Therefore if this doctrine is to be judged by the aim set, it is much more defective than the methods we are about to examine. It differs from them, we may add, in that while their authors avow that they do not want money to be stable in value, but to vary half in exchange-value and half in labor-value. Professor Clark's intention is that money should be stable in "value." and he thinks it would generally be so if it represented the same labor measured by the day instead of by the hour. .It would seem as if such money, if the standard were carried out without the doctoring above permitted, really would be stable in esteem-value, and for this very reason it would not be halfway between exchange-value and labor-value, but would be a species of labor-value itself (sometimes more akin to cost-value than to esteem-value). On the other hand, if the doctoring were introduced, the money would vary halfway between exchange-value and labor-value (cost-value), and would no longer be stable even in esteem - value.

A somewhat similar conclusion, it may be added, had been reached by Professor Böhm-Bawerk at the end of an article entitled The Ultimate Standard of Value, published in the Annals of the American Academy of Political and Social Science, Sept. 1894. After discussing the cost theory and the utility theory of value, which are theories properly to explain the relative exchange-values of goods and of labor, he rather abruptly ended with the assertion that while the ultimate standard of value is "human well-being," a concrete statement of this must rely upon the two standards of "the utility of the good" and of "the disutility involved in the acquisition of the good," with greater emphasis appar-

ently upon the former (pp. 207-8). This, too, is a search after the standard of esteem-value, without argument as to why such a standard, rather than the standard of any other kind of value, alone deserves to appropriate the title of "the standard of value."

§ 2. The next adoption of the intermediate position was by H. J. Davenport in his Outlines of Economic Theory. New York, 1896. Although in one passage of this work Mr. Davenport seems to look upon stability of money in exchange-value as the proper thing, and although he avows this position alone in a later work intended for students,* yet his ultimate theory is different. He recognizes that "labor has value only in the sense that the value of the product may be conceived as reflected back upon the means by which it is obtained," because "nobody wants labor as such," and "ultimately the employers purchase not labor but the goods which labor affords." so that "only for product, and in proportion to product, can labor command a price;" wherefore "it is not logical to measure the value of the product by the value of the instrument of production" (pp. 52. 53). He thus rejects the labor standard: but he does not therefore adopt the commodity standard. called multiple standard he wants all services to be included that are not already indirectly included (p. 227). This, however, is not inconsistent with the commodity



^{*}In the earlier and principal work he once says that money should not fall in purchasing power, because it is a note of demand payable by society in market products, p. 233. This is repeated in the later work, the Outlines of elementary economics, New York, 1897, p. 140. Here he uses "value" only in the sense of exchange-value, p. 6, cf. pp. 64, 149; and says: "An ideal money would be a money that did not fluctuate in purchasing power," p. 144; "A supply [of money] sufficient in kind and quantity to preserve unchanged the purchasing power of the dollar would be the ideal condition for all ordinary cases." p. 150.

standard proper. He rejects the commodity standard in consequence of an analysis of contracts, although the consequentialness is not apparent. "It was usefulness." he says, "and not effort, which the debtor borrowed; it was the product of effort, and not effort, which the creditor loaned. It is, then, in terms of usefulness that payment should be made" (p. 228). But like Professor Ross and Mr. Farquhar he seems to think that the standard of commodities is not the same as the standard of usefulness, admitting into this some idea of esteemvalue or final utility. For he concludes that when there has been progress repayment should be in more than an equivalent command over commodities, in order to agree with the "higher standard of life,"-"somewhere above equality in purchasing power, somewhere below equality in command over human effort" (p. 229).

More definiteness is provided by Leonard Darwin in his work on *Bimetallism*, London, 1898. Major Darwin has only one conception of "value," namely as exchange-value,* but he has two standards for deferred payment. He contrasts the "labor standard" and the "commodity standard." The labor standard exists when money is such that prices fall in proportion to increase of output per hour, so that the money-value of the total output of a given time of labor is constant.† Under this standard

^{*}Value is value in exchange, p. 6n, or power of purchasing other commodities, p. 166, and varies inversely as average prices, p. 168; "appreciation of gold is a general fall in prices," p. 178, similarly p. 204. When a monometallist speaks of the fall of prices as having "something, though it cannot have much, to do with the value of gold, we can see that either he is talking absolute nonsense, or else that he is giving some unknown meaning to his words," p. 168, cf. pp. 177-8.

[†]This is definitely the cost standard, and in a note he contrasts it with the "wages standard," in which wages are on the average constant. But even under the labor standard he generally implies that wages are

wage-earners and salaried officials automatically receive their share of the increase of the commodity-output and the progress of material civilization. The commodity standard exists when money is such that average prices are constant, wherefore with increased output the money-value of the whole will rise. Wage-earners and others can get their share of the increase only by a raise in their wages or salaries (pp. 239-41). Comparing these, he thinks that from the standpoint merely of distribution the former seems to be the better, as doing away with the need of adjustment of wages and salaries: but it has the demerit of letting idle receivers of fixed incomes share the benefits of progress due solely to the exertions of others. But with reference to production he thinks the latter the better, as the former is a drag upon industry, while the latter is stimulative (pp. 241-2). He now says "a compromise naturally suggests itself; that is to say, a standard occupying an intermediate position between the labor standard and the commodity standard would appear on the whole to be the best" (p. 242). This, of course, is necessary only "when trade is progressing;" for when trade is stagnant, prices ought to be constant (pp. 256-7), since in a stationary period the two standards coincide. idea here conveyed is that the proper standard should be halfway between the other two. - that the movement of prices should be such that the money-value of the total output should rise at about the same rate as the average price of the products falls. But if this ideal is not obtainable. Major Darwin has clear ideas about the next best thing. While the two standards are the limits be-



constant, or rather earnings in general. This is true only if labor continues to be applied during the same number of hours per day.

yond which the price-movement ought certainly not to go (pp. 244, 330), he thinks that if there is deviation from the midway position, this ought to be rather in the direction of the commodity standard than in that of the labor standard, that is, in a period of progress, prices ought to fall too little rather than too much, it is better that the money-value of the total output should rise more than the average price of the products falls. The reason for this is that he attaches more importance to the advantages and disadvantages to industry than to the advantages and disadvantages in distribution. great a fall of prices is a hindrance to the producer, and overmuch favors the idler. Too small a fall of prices encourages more the producer than the idler (pp. 245-6, 250, 257, 265, 276). Applying the same idea to the stationary period, he judges that if constancy of prices cannot be obtained, it is better for prices to rise than for them to fall (p. 257). The reasoning might be reversed, to the effect that just as it is better in the stationary period for prices to rise rather than to fall, so in the progressive period it is better for them to remain above the mean between the two standards than to sink below it. The application of these principles to the bimetallic question is that as gold seems to have behaved in accordance with the labor standard and silver in accordance with the commodity standard, bimetallism would have occupied the correct intermediary position, or if it had erred at all, would have erred on the side of not keeping up the level of prices sufficiently (pp. 276. 330-1), so that, although not so good as it ought to be, it would still not have been so bad as the single gold standard. The argument differs from that usually employed by the bimetallists; but agrees in assigning more

importance to the commodity standard than is allowed to it by the monometallists.

Lastly, a similar position, on a different line of thought, has been advanced by T. S. Adams in an article on Index Numbers and the Standard of Value, in the Journal of Political Economy, Chicago, December Dr. Adam's conception is that, on the one hand. the commodity standard, treated under the designation of "consumption standard," is "wholly one-sided." being "fairly equitable" from the standpoint of the consumer or creditor, but failing from the standpoint of the debtor or producer, except when prices and wages happen to vary together, the idea being the strange one that the debtor ought to pay according to his "relative ability" at the two periods of making and settling the loan, and the mistaken one that this is to the interest of the debtor and producer and that it is to the interest of the creditor and consumer to receive in repayment merely the amount of commodity loaned, (pp. 11-12), although such would be the case only in a period of degeneration and industrial decay. On the other hand, he conceives of the labor standard, or "production standard." as equally one-sided, treating it as if it were in the interest of the debtor or producer (pp. 17-18), although, as before, this would be so only in a retrogressive period, since in a period of progress it would be like saying that it is to the interest of the debtor and producer to repay more commodity than he borrowed. For such a period of progress, with which alone the world has been interested for many centuries and with which we are still chiefly concerned, he has curiously mixed the respective merits and demerits of the two standards and their relations to the

opposing classes of debtors and creditors.* Be this as it may, he concludes by following Professor Böhm-Bawerk in demanding that "the ultimate standard of value, and à fortiori the ultimate standard of deferred payments, must sum up in itself the merits of both the consumption and the labor standards. It must rest secure upon its own foundation, but it must effect, at the same time, a rational compromise between the two others" (p. 18), and again in affirming that "there is a practical as well as a strong theoretical and historical necessity for some standard of deferred payments logically intermediate between the consumption and labor standards" (p. 31).† There is likewise failure here to perceive that what is called the "ultimate standard of value" can only be a standard of one kind of value, and in no wise bears with it the à fortiori presumption that it is the proper standard for deferred payments rather than an ultimate standard of another kind of value.

§3. The intermediate standard recommended by these authors could be realized in either of two ways. It could be realized by working out the index-number for prices and again the index-number for wages or earnings, and then drawing a mean between them, assigning equal importance or weight to each; ‡ or by putting all in the same list, taking care to give as much



To say that in the present state of the world the labor or production standard is in the interest of the idle consumer, and the commodity or consumption standard is in the interest of the producer, may at first sight seem paradoxical; but it takes little analysis to see that such is the case.

[†] In the continuation of this paper in the issue of the same Journal for March 1902, his standard depends upon both prices and incomes or wages, pp. 204, 212-213.

Query: should the mean be the arithmetic, harmonic, or geometric? If they are treated as equally important, it should be the geometric.

weight to all the wages or earnings together as to all the prices together,* and drawing the average in the usual way, so far as applicable to wages and earnings. As already remarked, the method of averaging wages or earnings has never yet been properly developed. In the last article above noticed, Dr. Adams has formulated some methods (p. 15),† and has noticed that the questions involved are as difficult as in the measurement of prices (p. 16). But, like the rest, he dismisses the subject by attaching little importance to weighting (pp. 16-17). If this standard, or if the wages standard or earnings standard alone, is to be adopted, its advocates ought to pay attention to this question of method.

This requirement is on the assumption that an exactly midway position is desired. If a result is desired more closely following the one or the other standard, greater weight must accordingly be attached either to the commodities or to the wages.

[†]In some of his formulæ he has made the oversight of not perceiving that in determining the variation of the value of money by arithmetically averaging inverse variations of wages (and previously of prices), he is not doing what is usually done when the direct variations of wages (or of prices) are arithmetically averaged, since his procedure agrees only with the employment in the latter process of the harmonic average.

PART III. SYSTEMATIC REVIEW

CHAPTER I

NEED OF CARE IN INTERPRETING THE STATEMENTS OF ECONOMISTS

- §1. A casual perusal of the works of the foremost political economists might give one the impression that they all used the term "value" in the sense of exchange-value, so that there would appear to be no further question on the subject. For the direct statement that political economy is concerned only with, and treats only of, value in exchange, or exchangeable value, or exchange-value, has been made by the following economists, among others, after first being implied by Adam Smith and Ricardo:—
- J. B. SAY, Cours, p. 33b; McCulloch, Note to Wealth of Nations, p. 438b; Scrope, p. 164; Malthus, Principles, 2d ed. p. 50; Raymond, 3d ed. Vol. I. p. 57, cf. pp. 60, 78, and 1st ed. pp. 70, 77; J. Garnier, §373; J. S. Mill, Vol. I. p. 538, Vol. II. p. 12; Bowen, Political economy, p. 33; Macleod, Elements, p. 52, Theory of banking, Vol. I. p. 65; Fawcett, p. 347; A. Walker, p. 9; G. Fauveau, Considérations mathematiques sur la théorie de la valeur, Journal des Économistes, Jan. 1867, p. 31; Jevons, Investigations, p. 251, cf. Money, etc., pp. 11, 15, 68; N. A. Nicholson, The science of exchanges, London, 1873, p. 1; J. E. Cairnes, Some leading principles of political economy, London, 1874, p. 11, cf. p. 12; Madrazo, Vol. I. p. 108; E. Fauconnier, L'argent et

^{*}Cairnes has not interested us in the preceding Part because he is
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l'or, Paris, 1881, p. 52; PERRY, Introduction, p. 31; F. A. WALKER, Political economy, p. 82; J. S. NICHOLSON, Treatise, p. 45; MARSHALL, Economics of industry, p. 68, Principles, Vol. I. p. 8; H. GEORGE, Science of political economy, New York, 1898, p. 249; DARWIN, p. 6n.

But no definite inference can be drawn from such mere statements, on account of the different meanings attached to the term "exchange-value" itself, and its variants (with or without the epithet "real"). This term we have seen used in all the economic senses of the term "value" except that of use-value, and even in a mixture of exchange-value proper and esteem-value. In fact, in this list of twenty-three writers only six or seven have confined themselves to the meaning of exchange-value proper.

Then many economists have defined "value" in general in a way which specifies only exchange-value, or at most exchange-value conceived to be in commodities and services or labor. Among these attention may be drawn to the definitions given by the following economists:—

VASCO, Vol. I. pp. 7, 8; RICARDO, p. 9; J. B. SAY, Traité, Vol. II. p. 156; J. MILL, p. 102; SCROPE, p. 167n; SENIOR, pp. 7, 14, 96; BOWEN, op. cit. p. 292 (of "real value or price"); FAWCETT, pp. 311-12; A. WALKER, pp. 8, 175; JEVONS, Theory, p. 82, Primer, p. 98; SIDGWICK, pp. 248, 260, cf. p. 59; J. S. NICHOLSON, p. 63; LAUGHLIN, Facts about money, p. 75; DAVENPORT, Elementary economics, p. 6; FARRER, p. 90.

Out of these fifteen all but four or five have departed from their own definitions, and have used the term as if it referred to exchange-value in labor alone or even to

one of the rare economists who look upon variations in the value of money, if world-wide, as of no consequence, pp. 407, 412.

something else entirely different from exchange-value in any possible sense, namely to cost of production. This may occasion less surprise when we remember having seen such leaders as Adam Smith and Malthus, not to mention Ricardo himself, and others, make the same deviations even in regard to the specific term "exchange-value" (or one of its variants). Only those economists already mentioned whose opinions have been summarized in Part II. Chapter VII. and some of the early ones reviewed in the first Chapter of that Part, have consistently kept to their own definitions.

The same fault may be found with many who have used the term "value," especially in connection with money, in the sense of purchasing power. Even if it be allowed to stretch this definition from purchasing power over commodities to purchasing power over labor, it certainly cannot by any conceivable propriety of language be confined to purchasing power over labor alone. Yet we have seen Adam Smith do this at least of "real value" or "real exchangeable value," and, by omission of the epithet, of "value" or "exchangeable value" simply, and we have seen him followed by others. Likewise we have seen Ricardo, and many others, though using this definition of "the value of money," also use the phrase in an entirely different sense, applied to "real value" or to "value" simply, of cost of production, or "Purchasing power" we have seen to be cost-value. expressly turned to mean something entirely different from what the term purports, by Malthus. Others who have identified "value" with purchasing power are:

Scrope, pp. 164-5; J. Garnier, §§ 13, 412, 432; J. S. Mill, Vol. I. pp. 538, 565, 588, Vol. II. p. 11; Stirling, p. 45n; Macleod, Theory of banking, Vol. I. p. 15, Theory of credit, p. 509;

JEVONS, Investigations, p. 20; FAWCETT, pp. 462, 509; MANN, p. 8, 156; CAIRNES (value only another name for purchasing power), op. cit. p. 13; F. A. WALKER, Money, trade, etc., p. 36, Political economy, pp. 5, 81, 84-5; PERRY, pp. 26-7, 29, 38-9; JOURDAN, p. 426; SIDGWICK, p. 248; J. S. NICHOLSON, pp. 30-1; LAUGHLIN, op. cit. p. 147; H. WHITE, p. 28 (confined to unmonopolized commodities); DARWIN, p. 166.

Among these seventeen only six have rigorously held to the meaning belonging to the term.

Therefore we must be on our guard against interpreting economists by an appeal to a few plain statements. However plain and clear some few of their statements may be, according to the ordinary use of language, their meaning may be different, or they may not abide by the meaning they had in mind when they made these statements.

§2. Perhaps, however, the greatest departure from the clear meaning of words is made in still another It is evident that to say the "value" of statement. money is measured or estimated by, and varies inversely with, the general level of prices, or that a general fall of prices is, or constitutes, appreciation of money, and similarly of a rise and of depreciation, and the like, can rightly refer only to the exchange-value of money, in its proper sense with reference to commodities alone, or at most with extension to include the so-called price, or wages, of labor. Now this statement, merely varying in the different combinations of words of which it is susceptible, is of the commonest recurrence in the writings of economists, and may be found in the following:-

MONTANARI, pp. 90-91; LOCKE, p. 30 (as an opinion of others); LAW, p. 116; GALIANI, Vol. I. p. 155; GENOVESI, Vol. IV. p. 207; VERRI, Vol. I. p. 34; A. HAMILTON, in letter to Robert

Morris, 1780, Works, Lodge's ed. Vol. III. p. 63 (of "relative value"); Solera, p. 292, cf. p. 295; RICARDO, pp. 214, 377; CRAUFURD, p. 160; G. GARNIER, Note to Adam Smith, Vol. V. p. 431; GANILH, p. 265 (but confines it to the case only of all prices varying, p. 266, relying on Vasco, Vol. I. p. 10); D. STEWART, Vol. 1. p. 436; TORRENS, Essay on the production of wealth, pp. 44. 166. Principles and practice of Sir R. Peel's Bill, pp. 64, 86. 87; J. P. SMITH, pp. 76, 79; RAYMOND, 1st ed. p. 424 (3d ed. Vol. II. p. 353); J. GRAHAM, Corn and currency, London, 1826, p. 24; J. B. SAY, Cours, p. 180; GOUGE, op. cit. Part I. p. 10a; SCROPE, p. 215; BAILEY, Money and its vicissitudes, pp. 46-7; ALISON, p. 39; J. S. MILL, Vol. I. p. 541, Vol. II. pp. 11, 15, 301, cf. p. 86; J. GARNIER, 28 410, 440; STIRLING, p. 61; W. LIPKE, op. cit. p. 333; Roscher, p. 256 (of exchange-value); Bowen, op. cit. pp. 298, 410; MACLEOD, Elements, p. 83, Theory of banking, Vol. I. p. 43, Theory of credit, p. 113, cf. p. 859 (includes rate of discount); LEVASSEUR, L'or et l'argent, p. 138; CHEVALIER, Baisse probable, etc., p. 123; J. PRINCE-SMITH, Der Markt, in Werke, Vol. I. p. 17; JEVONS, Investigations, pp. 20-1, 53-4; FAWCETT, pp. 367, 371, 372, 409, 434, 460; B. PRICE, Principles of currency, p. 48; Currency and banking. p. 21; DROBISCH, Ueber Mittelgrössen, etc., in Berichte der Gesellschaft der Wissenschaften zu Leipzig, 1871, p. 39, Ueber die Berechnung, etc., in Jahrbücher für Nat.oekon. und Statistik, 1871, pp. 148-9; MANN, pp. 8, 62, 156, 166, 175-6; H. R. LINDERMAN, Report of the Director of the Mint, Washington, 1873, p. 21; GIFFEN, Essays, 1st Series, pp. 83, 260, 2d Series, p. 103, Case against bimetallism, p. 219; Knies, p. 189 (of exchange-value); CAIRNES, op. cit. p. 155; A. WAGNER, Für bimetallistische Munzpolitik Deutschlands, Berlin, 1881, p. 101; H. KLESER, Die deutsche Währung und ihre Gegner, Köln, 1883, pp. 28-9 (but opposes the fall of the rate of discount to show that gold has depreciated, pp. 30-1); DE FOVILLE, quoted by Martello, La moneta, etc., Florence, 1883, p. 84n; L. HANSARD, On the prices of some commodities during the decade 1874-83. Journal of the Bankers' Institute, London, Jan. 1885, p. 42; J. Lehr, Beiträge sur Statistik der Preise, Frankfürt a. M., 1885, p. 40; LAUGHLIN, History of bimetallism, pp. x. 64-5, Elements, pp. 64-5; NEWCOMB, Principles, p. 213 (of "absolute value"); A. Mongredien, On the displacement of labor and capital, London, 1386, p. 31; H. HOARE, The appreciation of gold and its connexion with the depression of trade, London, 1886, p. 14; O. ARENDT, Der Währungsstreit in Deutschland, Berlin, 1886, p. 44; HORTON, The silver pound, p. 5n; H. B. GREVEN, in Consular Reports No. 87, Washington, 1887, p. 411: J. S. NICHOLSON, pp. 45-6, 61-2 (and in Evidence before the Gold and Silver Commission, First Report, 1887, q. 4035); D. WATNEY, Evidence before the Gold and Silver Commission. Second Report, 1888, qq. 9372-3; DENSLOW, p. 343; FARRER, pp. 51, 60 (but cf. p. 297); D. A. WELLS, Recent economic changes, New York, 1889, p. 207n; MARSHALL, Principles, Vol. I. p. 432n; H. GRITTNER, Goldwährung ist Erwerbsnoth, Berlin, 1890, p. 20; E. DE LAVELEYE, La monnaie et le bimétallisme international, Paris, 1891, p. 9; Ross, The Standard of deferred payments, p. 38; F. W. TAUSSIG. The silver situation in the United States, New York, 1893, p. 106; TRENHOLM, p. 88; S. McC. LINDSAY, Die Berechnung der Edelmetalle seit 1850, Jena, 1893, p. 26; G. P. OSBORNE, Principles of economics, Cincinnati, 1893, pp. 227-9; H. von Sydow-DOBBERPHUL, Beiträge zur Währungsfrage, Berlin, 1893, p. 49; W. BROUGH, The natural law of money, New York, 1894, p. 6, Open mints and free banking, New York, 1898, p. 26; R. WEISSINGER, What is money? Louisville, 1895, pp. 55-6; LEROY-BEAULIEU, Vol. III. pp. 146, 147, cf. p. 220; DAVENPORT, Elementary economics, p. 149, cf. Economic theory, p. 224; HADLEY, p. 193; DARWIN, pp. 168, 178, 204.

It would be very convenient if we could appeal to all these economists as agreeing that the "value" of money is its exchange-value. But even in the wide sense of extending exchange-value to cover exchange-value in labor as well as in commodities, they do not so agree in substance as they do in words. Apart from the early economists and the professed bimetallists among the later, few of the writers on general economics here cited can be confidently appealed to as maintaining that in order to avoid appreciation and depreciation and to keep money stable in "value," as is by all desired, the general level of prices ought to be constant. For in making the above sort of statement many have apparently

had in mind only some sudden changes in general prices, in short periods, in which the "values" of commodities in some other sense of the term, such as costvalue or esteem-value, have not had time to vary sensibly. They have therefore simply for the moment assumed that commodities are stable in "value." in every sense, or have taken such changes of general prices as more probably indicating changes in the "value" of money than in the "values" of commodities, thereby still conceiving of "value" in one of the other senses, and not really intending to assert, as a universal proposition, that a fall, for instance, of the average of all prices necessarily is, or ipso facto constitutes, appreciation of money, by the meaning of the terms; which they would have to do if they meant to refer to exchange-value. Or some of them have even had reference to exchange-value on the occasion when they made this statement, applying in a general way to "value" what they perceived to be universally true of exchange-value, but have in other places used the same term "value" in other senses, measurable in other ways. Whenever we meet with this statement, then, we must look to see if there is any arrière pensée in the mind of the assertor.

CHAPTER II

CLASSIFICATION OF THE STANDARDS

§1. In order to classify the opinions of writers who use terms so vaguely and inexactly, it is necessary to review and summarize the possible positions that can be assumed in regard to the subject before us.

Primarily there are three:—(1) Stability of the exchange-value or purchasing power of money, measured by its relation to commodities alone, as expressed in the inverse of their prices, these forming the commodity standard, or prices standard. (2) Stability of esteem-value, often stated as stability of "real exchangevalue." confined to exchange-value in, or purchasing power over, labor alone, as expressed in its so-called "price." or wages (extended to salaries and profits—to all earnings, as it should be, and even to all incomes in general), forming the wages standard, or better the earnings standard, or the income standard. (3) Stability of cost-value (often expressed under the term "real value." and even under the wholly misapplied term of "real exchange-value"), meaning that the money metal should always be produced with the same effort and that the prices of commodities should conform to, and mark, their labor-costs, in accordance with what may be called the cost standard.

These are the simple elements. In addition, (4) people have combined the first and the second, compounding a mixture of the two, the terms "exchange-value" and "purchasing power" being used of exchange-value in, and purchasing power over, both commodities and labor, wherefore this should be called the commodity-and-wages standard, or better the prices-and-earnings standard. Agreeing with it, money would be stable in no one kind of value, but would be at a mean between variation in exchange-value and variation in esteem-value. Again, (5) people have confusedly held at once the second and the third positions. These positions do not admit of being combined into a wages-and-cost standard. They have rather been treated indif-

ferently as if they were the same, the distinction between them not being observed. This hybrid admits only of being designated as a vague labor standard, the standard for the confused idea of labor-value. And lastly, (6) when the standard combined with the first is this confused mixture of the second and third, then instead of the commodity-and-wages standard we have, less definitely, the commodity-and-labor standard.

§2. The first of these positions would seem to be entertained by those who recommend the so-called "tabular" or "multiple standard." Such are persons who wish to make a practical use of index numbers determined on lists which, so far as actually carried out, have usually been confined to the prices of commodities. Their recommendations have generally been in one of two forms: either that contracts should be settled in sums varying directly with the index figures, with aim to correct the imperfection of money as a standard; or that money itself should be so regulated as to maintain the index figure nearly invariable, with aim to keep money perfect so far as possible as a standard. Those who have advanced the former are—

Lowe and Scrope, as already described (the latter being followed by R. H. Walsh, and reviewed by J. Maclaren); Mann, p. 180 (in adjusting debts upon return to specie payments); Jevons, Money, etc., pp. 328-33; Horton, Silver and gold, 2d ed. pp. 36-43 (refers to K. Walcker, Die Silberentwerthungsfrage, Strasburg, 1877, as recommending it especially for state debts); F. A. Walker (confining it to persons not in business), Money, pp. 161-3, Money, trade and industry, pp. 70-7; Marshall (reservedly), in Report of the Industrial Remuneration Conference, London, 1885, pp. 185-6, Remedies for fluctuations of prices, pp. 363-5; Newcomb, Principles, p. 214 (he was less favorable to it in The standard of value, p. 234, because of its unsuitability for short

debts); J. S. NICHOLSON, Treatise, pp. 31-4, 37; T. LAVES, Die "Waarenwährung" als Ergänzung der Edelmetalwährung, Schmollers Jahrbuch für Gesetzgebung, etc., Leipzig, 1890, pp. 837-46.

The scheme is also entertained by Laughlin, *History*, pp. xi-xii (to head off bimetallism), *Elements*, pp. 76-7; by GIFFEN, *Recent changes in prices and incomes compared*, Journal of the Statistical Society, London, 1888, pp. 54-5; and by Leroy-Beaulieu, Vol. III. pp. 120, 345-9. It was countenanced by Zucker-kandl before his change of view, as already recorded. It is recommended as a substitute, in case of failure to establish the other scheme, by Winn and Parsons (see the next list).

The latter has been recommended, mostly in connection with inconvertible paper money, but also in connection with paper money redeemable in variable amounts of precious metal, by the following:—

Suggestively by R. Walsh, pp. 275-7; Scrope, pp. 418-19; W. CROSS, Standard pound versus pound sterling, 1856(?); JEVONS. Money, etc., pp. 327-8 (with redemption in goods); NEWCOMB, The standard, etc., pp. 235-7; J. Conrad, in Wissenschaftliche Gutachten über die Währungsfrage, Berlin, 1893, pp. 33-4; A. DE MOLINARI. Précis d'économie politique, Paris, 1893, p. 67; OSBORNE, op. cit. p. 332. More seriously advocated by J. BARR ROBERTSON before the Gold and Silver Commission, Second Report, 1888, qq. 6294-6304; A. WILLIAMS, A 'fixed value of bullion' standard, Economic Journal, June 1892, pp. 280-9; O. J. Frost, The question of a standard of value, Denver, 1894, p. 26; A. L. Fonda, Honest money, New York, 1895, pp. 158-95; H. WINN, The multiple standard, American Magazine of Civics, Dec. 1895, pp. 579-89; J. A. SMITH, pp. 33-42; T. N. WHITELAW, A contribution to the study of a constant standard and just measure of value, Glasgow, 1896, pp. 20-2, 28-82; F. PARSONS, Rational money, Philadelphia, 1898, pp. 102ff.: T. E. WILL, Stable money, Journal of Political Economy, Chicago, Dec. 1898, pp. 85-92.

The same has also been recommended in connection with metallic money, in "limping bimetallism" or "humpback monometallism," by means of regulating the issue of silver coins, by these:—

Suggestively by T. Mannequin, La monnais et le double étalon, Paris, 1874, p. 59, and M. Léon, Comment la législation peut influer sur la valeur de la monnais, Journal des Économistes, Sept. 1876, pp. 377-9; and emphatically by L. Walkas in the same Journal, Dec. 1876, May 1881, Oct. 1882, and in his principal works, who has been followed by E. B. Andrews, An honest dollar, Publication of the American Economic Association, Nov. 1889, pp. 36-46, and Institutes of economics, Boston, 1891, p. 141.*

An approximation to this object, supposed to be closer than under monometallism, is one of the objects sought by the bimetallists. As showing that the object desired is stability in exchange-value, or purchasing power, rather than in any other kind of value, only a few more examples need here be noticed, additional to those already cited in Part II. Chapter VII. § 6:—

R. B. CHAPMAN, Memorandum on an international bimetallic standard measure of value, in Proceedings of the International Monetary Conference, published at Cincinnati, 1881, p. 188, cf. pp. 186-7; R. H. PATTERSON, Is the value of money rising in England and throughout the world? Journal of the Statistical Society, London, 1880, pp. 4, 6-7, 12, etc.; A SCHÄFFLE, in Wissenschaftliche Gutachten, etc., Berlin, 1893, p 37; H. R. BEETON, The case for monetary reform, London, 1894, pp. 16-17; W. H. HARVEY, Coin's financial school, Chicago, 1894, pp. 81-2, in The great debate, Chicago, 1895, pp. 366, 388; H. G. MILLER, Chapters on silver, Chicago, 1894, pp. 34, 36, a dollar "is an honest dollar when it has at the end of a given period the same value or purchasing power that it had at the beginning of it," p. 35, similarly, p. 105; W. H. SMITH, The effects of the gold standard, Chicago, 1895, "a dollar that either increases or diminishes in

In An honest dollar he says: "An ideal dollar would buy always precisely the same amount of general commodity," p. 10; and in the revised edition of this essay, published at Hartford, 1894, in which bimetallism is advocated, he says: "Satisfiable or unsatisfiable, a requirement of the money system to day is such regulation as may preserve the purchasing power of the unit of value permanently identical with itself," pp. 23-4.

purchasing power is unjust," p. 24; H. DENIS, La dépression économique et social et l'histoire des prix, Brussels, 1895, pp. 170, 233.

In fact, the larger number of bimetallists take for granted, or look upon it as axiomatic, that "value" means exchange-value, and that the stability commonly desired in money is stability in exchange-value, measured by the commodity standard.* It is rare, therefore, that argument for this position is found in their writings, over against the other standards and other kinds of value. A few, however, have attacked the general labor standard, among whom are—

H. S. Foxwell, in *Report* of the Proceedings at the Annual Meeting of the Bimetallic League at Manchester, Feb. 6, 1894, published in London, 1894, pp. 56-8 (against the wages standard); ANDREWS, *An honest dollar*, 1st ed. pp. 10-11 (against the cost standard); G. H. SHIBLEY, *The money question*, Chicago, 1896, pp. 38-42, (also against Professor Clark's half-and-half standard, pp. 50-1).

Some of these economists have advised the inclusion in the lists of wages (at least of domestic servants); but none has paid much attention to the subject of weighting in connection with wages. They have generally attached little importance to wages compared with the mass of commodities, and so have maintained the commodity standard but slightly adulterated.

§ 3. Through the prices-and-wages standard there are various shades in the transition between the pure



^{*}An exception we have seen in L. Courtney, who thought bimetallism would lead to greater stability in cost-value (see above, p. 16). With Courtney may be compared an advocate, not of bimetallism, but of symmetallism, A. P. Stokes, who has accepted some doctrine of labor or cost being the standard of value, *Joint-metallism*, New York, 1895, 3d ed. pp. 71-2, cf. pp. 24, 85.

commodity standard and the pure wages standard. Some economists have advised counting the wages of laborers employed in agriculture and manufactures at only a small figure compared with all commodities. among whom may be mentioned Professor Leroy-Beaulieu.* Two early statisticians, Evelyn and Young, actually, in their tables, counted the wages of farmhands at about one third of the whole, leaving commodities to count at about two thirds. And recently the same division between labor and commodities has been recommended by Professor Vilfredo Pareto in his Cours d'Économie politique, Lausanne, 1896.† Of late also the importance of labor has been increased to count equally with commodities, which is a position we have seen occupied by some economists recommending a halfway position between these two separate standards. namely Mr. Farguhar and Mr. Davenport. Sometimes even greater importance has been attached to wages than to the prices of commodities. I



^{*}See above, p. 119n.

[†]Vol. I. pp. 281-2. Pareto does not seem altogether to be in earnest on this subject. In an earlier article, Considerazioni sui principii fondamentali dell' economia politica pura, Giornale degli economisti, June 1893, he confessed he did not know nor had ever seen a satisfactory definition of "general purchasing power," p. 22. He there condemned Walras's plan of applying the multiple standard, pp. 23-4n; which condemnation he repeats in the Cours, adding that the desirable object is not for money to retain a certain mean relation to commodities, but for the world to advance in bien être, Vol. I. pp. 266-7, and instancing that England is better off now with a low index number than it was in 1820-25 when the index number was highest, p. 282. Such argumentation is unworthy of this promising economist.

[‡] This is done, e. g., in the following: "Gold prices fell only 19 per cent. from 1873 to 1891. . . . Wages, in gold, rose more than 14 per cent. from 1873 to 1891. . . . The advance in wages since 1873 so nearly offsets the decline in prices that when fairly tested by both prices and wages the value of gold in 1873 and 1891 was practically the same,"

§4. Different from this is the position of those who assert that wages are a better means of measuring the "value" of gold than prices. These do not mean that in a single list including prices and wages, wages should count for more than prices, but that in two different ways of measuring the "value" of money, namely by means of prices and again by means of wages, the method of measuring it by wages is more to be relied on than the method of measuring it by prices. They do not see that they are using the term "value" here in two different senses, and are comparing things that should not be compared. They are virtually saving that the measurement of the "value" of money by means of wages is a better measurement of its "value" than that by means of prices, on account of the former being the proper measurement of the esteem-value of money. while the latter is only the proper measure of its exchange-value. But if the method by prices does not pretend to be a measure of anything but the exchangevalue of money, it does not deserve to be put aside for the method by wages on account of this being the proper method of measuring the esteem-value of money. unless it first be shown that the only "value" of money we care to measure is its esteem-value; which is not done. We thus meet with the following statements by the advocates of the single gold standard:-

A. CRUMP: "The best of all guides, perhaps, to a solution of whether or not the value of gold has appreciated is its value in labor. . . . Have wages fallen? No." Causes of the great fall in prices, London, 1889, p. 190.

D. A. Wells: "In respect to the one thing that is everywhere



B. W. Holt, Interest and appreciation, Sound Currency (Reform Club), New York, Nov. 15, 1898, p. 368.

purchased and sold for money to a greater extent than any other, namely labor, there can be no question that its price measured in gold has increased. . . . Had the purchasing power of gold increased during this period, a given amount would have bought more labor and a fall in wages would have been inevitable.

. . Measured by the price of labor, therefore, gold has unquestionably depreciated; and can anybody suggest a better measure for testing the issue?" The downfall of certain financial fallacies, Forum, Oct. 1893, p. 136.

L. A. GARNETT: "Both 'capitalized' and 'wage' labor, that enter so largely into the value of all the products of human industry, furnish a much more stable standard of comparison than many of the perishable commodities that are employed for the purpose." Op. cit. p. 584.

R. MOORE: "A better measure is found in the wages of labor. In fact, the best test of the plenty or scarcity of any article, be it wheat or gold, is the amount of it which can be obtained by a day's labor." Farm products, wages and silver, St. Louis, 1895. p. 6.

K. Helfferich: "The prices of commodities alone are not to be taken into account, since a change in the value of money must also affect the wages of labor. Labor also, in our economic conditions, is a 'commodity,' and indeed the most important. Furthermore there dwells in the wages of labor a certain tendency to steadiness of value, and decidedly a stronger such tendency than in all other commodities. . . . Also technical improvements in production touch only the prices of goods, while the wages of labor are uninfluenced by these conditions. Therefore in the examination of variations in the value of money, a greater importance and force of proof is due to the wages of labor than to the prices of goods." Die Währungsfrage, Stuttgart, 1895, p. 19. "The rise of wages precludes appreciation of gold, since a fall of wages would be the necessary consequence of appreciation." Der gegenwärtige Stand der Währungsfrage, Berlin, 1895, p. 14. (And in both works he proceeds also to attach much importance to the rate of discount, in determining variations in the "value" of "money.")

Here we have the last step toward the wages standard pure and simple. It is reached entirely by other recent controversialists, all of them gold advocates, a few specimens of whose opinions may here be quoted:—

- J. C. LEAVER: "Appreciation" and "depreciation" do not mean "a comparison of the value of gold with other commodities;" and "to demonstrate that gold has or has not 'appreciated' or 'depreciated' we must not merely judge by the prices of articles produced, but by the cost of obtaining labor, hour by hour, which has produced them," and as wages have risen considerably during the last fifty years, gold "has heavily depreciated." Money, London, 1893, pp. 17, 18; similarly in his Review of the Rt. Hon. Leonard Courtney's article of 'Bimetallism once more,' London, 1893, pp. 4, 6.
- C. C. Jackson: "Rightly measured that is, measured by the effort needed to acquire a given amount of it gold has not appreciated, but has depreciated since 1873." "Since 1873 prices, measured in gold, have fallen 10 per cent, while wages have risen 14 per cent. Is it proper then to say that the value of gold has risen, that gold has appreciated, when it can be got with less exertion than formerly?" Has gold appreciated, Boston, 1894, pp. 4, 6.*
- G. E. LEIGHTON: "As the test of abundance is rate of interest, the one supreme test of value of money is the reward of labor, and that test applied, a day's labor is worth more in gold than at any previous period. If gold had appreciated wages would have declined." Why we oppose free coinage, address at St. Louis, Nov. 27, 1894, p. 21.
- J. DEWITT WARNER: Measured by "the one commodity of most importance to men, of which the greatest amount is bought and sold every day in every part of the world—man's labor," gold has been steadily growing cheaper. Free coinage dissected, Sound Currency, July 15, 1895, p. 376.
 - R. G. HORR: "Wages are 70 per cent. higher, paid in gold,



^{*}He also speaks of "the absurdity of estimating the appreciation of gold by prices merely," p. 7. But why estimate it by prices at all, if it is "rightly" estimated by wages? He accordingly defends payment of debts in money appreciated in commodities if not appreciated in labor, because workmen can then pay their debts with undiminished facility, pp. 27-8, cf. pp. 6-7.

for the same amount of work, than in 1860. Has not gold depreciated then when you measure it with the great commodity of human toil?" In *The great debate*, Chicago, 1895, p. 242.

- J. T. McCleary: "There is one commodity which stands out by itself preëminent . . . a commodity which is the truest and best measure of value ever discovered . . . and that is a given unit of human labor. . . . The wages of labor have been on the average largely increased." Speech in the House of Representatives, Feb. 12, 1896, Washington, 1896, p. 11, but cf. p. 44.
- M. A. MILLER: Gold has since 1873 shown "a loss of purchasing power for the standard measure, labor" (but is best, as fluctuating least). Gold or silver? New York, 1896, p. 53, cf. p. 109. (But at the start he laid down a "foundation principle" that "labor and raw materials are the only true measures of value.")
- L. G. Powers: "We note a tremendous fall in the purchasing power of gold over or in exchange for human labor, the only final measure for testing the value of gold or any other commodity." Fifth annual report of the Bureau of Labor of the State of Minnesota, St. Paul, 1896, p. 508. (This, however, after much testing of gold by means of prices.)
- R. L. NASH: "Man's labor, and woman's labor too, have not fallen in value [i. e. money-value], and that is the best of all tests we can apply to the gold standard, to ascertain whether it is appreciated or depreciated." Why Australia believes in a single gold standard, Gold Standard Defence Association, Leaflet No. 25, London, June 1897, p. 8.

The wages standard has been advocated by others beside the defenders of the gold standard. Just as we have seen that some economists would like to have paper money issues regulated with a view to keeping money stable in exchange-value, so others have recommended that they should be regulated with a view to keeping money stable in esteem-value, by keeping constant the level of wages (or of earnings in general). This we have already seen advised by John Gray and by Mr. Pollard. It would also be the logical outcome

of the position of Mr. J. Borden, who, in an Essay on Value with a Short Account of American Currency, Chicago, 1896, wants all issues to be in the hands of government, in order to a better control of the value of money, and who maintains the labor standard in the wages form (pp. 85-6).

For clearness of views it would be desirable that all persons who recommend the gold standard, or any other monetary system, on this ground, should recognize and declare that they are followers of Adam Smith and Malthus, and that they hold the same position in economics with Mr. Shadwell; and if such doctrines prevail in practice, it is desirable that they should prevail in theory, and that the wages standard should be taught in text-books of political economy as the true standard of "value," with avowed exclusion of every other standard.

§5. Instead of the wages standard, the cost standard has also been urged by the gold advocates, and by others. Some examples are the following:—

M. QUENSTEDT: "The value-substance in things is the human labor spent on their production." "The measure of unskilled labor is time. Therefore the amount of value in an object depends upon the quantity of labor-time its production cost." "Only the labor that is transformed into objects of use constitutes value." "Permanently the price [= value] of a commodity can fall only if its costs of production become smaller." Zur deutschen Währungsund Münzfrage, Berlin, 1871, pp. 15-19.

B. Hamilton: "The great principle in the economy of the industry of a free people, is that the labor bestowed in rendering these 'gifts' available for use, and not the 'gifts' themselves, is the ultimate basis of the kind of value which can be rightly brought into question between man and man." Money and value, London, 1878, p. 170 (but he adds, "though the relative service-ableness of the labor bestowed cannot be left out of account").

RUSSELL: "If we could institute a system of statistics which should classify the value of all things according to the quantum of a normal day's labor or of a normal labor-effort, and if we could then say: in this commodity are contained so and so many normal labor-efforts or so and so many normal days' labor, "—all which, however, we cannot do,—then we should have such a measure of value as we have in physics a measure of force for steam in horse-power," etc. In Verhandlungen der deutschen Silberkommission, 8-17 Sitzung, Berlin, 1894, p. 78. (A little later he speaks of prices having fallen because of lowered cost of production.)

C. G. HARGER: Not labor itself, but "the result of productive labor is the true standard of value." The true standard of value, Washington, 1895, pp. 11, 14, 26. (Holds that the "unit of value" should represent the grand average result of productive labor performed in a given time by the most skillful and efficient persons in various crafts and professions, with families, and sufficient for respectable living and for old age, pp. 26-7; and thinks that the average product of eight hours a day is now in the United States \$4.9707, pp. 29-30. The idea seems to be that the average product of eight hours of labor should always be worth this sum.)

Moreover, as we have twice reviewed opinions to the effect that the issue of paper money ought to be regulated with a view to stability of money, according to some, in exchange-value, and according to others, in esteem-value, so again the regulation has been desired to aim at procuring stability in the cost-value of money. This idea we have already seen recently advanced by Professor Loria.†

^{*}Cf. Quenstedt above, and Karl Marx.

[†]The same end is thought to be attained automatically by free or mutual banking, with detachment of money from any one substance (cf. Steuart and Lipke above, pp. 44-5n, the idea being that money would then be free from the causes of variation inherent in the substance to which it is now attached—the costs of its production—and would therefore not be subject to any causes of variation, the supply always equaling the demand), by M. Mongin, Les changements de valuer de la monnaie, Revue d'Économie politique, 1887, and by W. A. Whittick, Value and an invariable unit of value, Philadelphia, 1896. Both these writers think

There is no such gradual approach to the cost standard from the commodity standard as there is in the case of the wages standard. But we have seen some economists occupying a halfway position between the two. These are Professor Clark, Professor Böhm-Bawerk, Major Darwin, and Dr. Adams.

The supporters of the cost standard have nowadays shown their hand mostly by approving of a general fall of prices in conformity with improvements in the production of commodities other than the metal used for money. As this condition of falling prices is also commended by the upholders of the wages standard, and as the defense of falling prices has been the principal subject of interest, the distinction between these standards has not been clearly observed. Some statements in which it is impossible to tell which standard is advocated may here be quoted:—

J. Patterson: "The real unit of value—the unit recognized by God and humanity—is a day's work." Speech at the Convention in Memphis, May 1895, reprinted in A dollar worth a dollar, New York, 1895, p. 60. "I have repeatedly said that a day's work was the true unit of value, and that that country was the most blessed and enjoyed the greatest prosperity where a day's labor brought to the toiler the most comforts of life." Speech in the House of Representatives, Feb. 7, 1896, separate reprint, p. 13. Similarly, Speech at Kansas City, March 18, 1896, p. 13 (he here speaks of the advantage of having "a stable standard of value,"

that prices could then vary only with variations in the values or the costs of the commodities themselves, no interference coming from money, which would be invariable in the attribute of value or difficulty of attainment, as, in their opinion it ought to be (the former, pp. 153-6; the latter, pp. 81ff.). The latter especially condemns repayment of debts in the commodity standard as unjust in case of improved production, p. 62, wanting it to be in the same amount of difficulty, pp. 62, 64, 78, 86, value being "the measure of service," p. 64. He relies here upon Proudhon.

yet complains that the Mexican laborers do not get higher wages now that silver is "depreciated").

On account of this mixture of the two standards by their modern adherents we need not ourselves be too particular about separating them; and in the following pages our effort shall be rather to contrast the commodity standard with the vague labor standard, than singly with either of the two standards that are mingled in this imperfect compound.

CHAPTER III

COMPARISON OF THE PRINCIPAL STANDARDS

- §1. The contrast between the commodity standard and the labor standard may be drawn by noticing the attitude which economists in their references to variations in the "value" of money assume toward two different matters. These are (I) the causes of the variations in question, and (II) the distribution of wealth which is their effect. Each of these again falls into two divisions. Causes are found both (1) in the improvement of production, and (2) in the abundance of the articles produced. And distribution is both (3) between creditors and debtors through contracts, and (4) between employers and employees through wages.
- I. (1). Attitude toward improvements. (A.) In general those economists are dealing with "value" in the sense either of cost-value or of esteem-value (principally the former) and want money to be stable in such value, who say that before inferring from a change in the level of prices a change in the "value" of money we must

examine whether the cause of the change in the relation between money and commodities does not lie on the side of the commodities, occasioning their "values" to change, without affecting the "value" of money. All are such who thus draw a distinction between a variation in the level of prices due to causes residing in money and a variation due to causes residing in commodities. and in the case when a general fall of prices may be ascribed exactly to cheapening of the costs of production of the goods think that this shows money to be stable in "value," and admit a variation in the "value" of money only so far as it can be shown either, directly, that the money-material has varied in the cost of its production, or, indirectly, that the variations of prices are not wholly accounted for by the variations in the costs of production of the goods, wherefore a part of the variation of the prices must be due to a variation in the cost and in the "value" of the money-material. Such also are all those who are satisfied with an explanation of the fall of prices that has taken place at certain periods by finding its causes in the cheapening of production or transportation in every commodity singly, thereby exculpating money (gold) from any share in the cause of the falls either individually or collectively.

W. Lexis: "The only proper inquiry is to pick out and set aside the moments which lie in the commodities themselves, and to see what is left over. If there is a remainder that cannot be explained in this way, we should be justified in saying that this was the effect of the inner appreciation of gold." In Verhandlungen der deutschen Silberkommission, 8-17 Sitzung, Berlin, 1894. (This is the indirect measurement. The direct measurement we have seen advised by LORIA.)

The procedure of explaining the general fall of prices by examining the special causes that have operated upon many commodities singly and separately, with refusal to admit a rise in the "value" of money (at least to anything like the corresponding extent), was recommended and practiced in the period of falling prices 1820-50 by RICARDO, pp. 400-1; McCulloch. Note to Wealth of Nations, p. 498b; Malthus, Principles, p. 58; Bab-BAGE, p. 158; Tooke, passim. And again in the later period of falling prices after 1873 by S. BOURNE, On some phases of the silver question, Journal of the Statistical Society, London, 1879, pp. 418-19. 453-4, cf. 408, 434; LEROY-BEAULIEU, La baisse des prix et la crise commerciale, Revue des Deux Mondes, May 15, 1886, pp. 395-403: H. FORSSELL, The appreciation of gold and the fall of prices of commodities, (English translation,) London, 1886; W. Fowler, The appreciation of gold, London, 1886; F. KRAL, Geldwert und die Preisbewegung im Deutschen Reiche 1871-1884, Jena, 1887, pp. 66 ff.: LAUGHLIN. Gold and prices, etc.; E. NASSE, Das Sinken der Warenpreise während der letzten fünfzehn Jahre, Jahrbücher für Nat.-oekon. und Statistik, 1888, pp. 56-63; Gold and Silver Commission, Second Report, 1888, Evidence by B. CURRIE, q. 6885, H. L. RAPHAEL, q. 6963, H. W. BLAKE, qq. 7407, 7415, W. FOWLER. gg. 7704, 7815-16; BRAMWELL, gg. 8850, 8885-6, N. G. PIERSON, p. 254 (admits slight appreciation, but not so much as indicated by the fall of prices), and the gold advocates in the Final Report, Part II. & 25-6, 47, 71, 79, 99; CRUMP, op. cit. pp. 19-20, 34, (though allowing increased purchasing power to gold, yet claims "there has been no material change in that purchasing power which is due to scarcity" of gold, p. 34, cf. Malthus's "power of purchasing arising from intrinsic causes"); Wells, Recent economic changes, pp. 123-89, 191, 202, 205, also in Second Report of the Gold and Silver Commission, p. 272 (not due to appreciation of gold); FARRER, pp. 62, 131-2, 252, 264, 271; MACLEOD, Theory of credit, p. 538; H. WHITE, The gold standard, Address at



^{*}I. e. not due to increased cost of production of gold. Thus in an article on The silver question, 1877, reprinted in Practical economics, New York, 1887, he said that gold and silver had "depreciated" during the preceding thirty years because of the cheaper production of them owing to better transportation, etc., and he expected a continuation of this "depreciation in the value" of gold, p. 51. But in Recent economic changes he once alters the phraseology and allows "appreciation" to be synonymous with falling prices, p. 207n.

Chicago, June 20, 1893, published at New York, 1893, pp. 31-2. Money and banking, p. 110 (follows Wells); E. ATKINSON, The battle of the standards and the fall of prices, Forum, New York, April 1895, pp. 144, ff.: Soetbeer, in Zur Währungsfrage, Verhandlungen . . . herausgegeben von dem Handelskammer zu Hamburg, 1895, pp. 9-10, 25-6; Helfferich, Die Währungsfrage, p. 32; F. THORWART, Soll Deutschland seine Goldwährung aufgeben? Stuttgart, 1895, pp. 9-10; T. DRAPALA, Die Ursuchen der sinken der Preisbewegung, Aus Handel und Industrie, Zittau i. S., 1895, pp. 350-1; A. ELISSEN, The errors and fallacies of bimetallism, London, 1895, pp. 11, 14-26; J. G. CARLISLE, Speech at Memphis, May 23, 1895, pp. 28-30; J. DEWITT WARNER, op. cit. p. 376; McCleary, op. cit. p. 43 (cf. p. 23); Pareto, Cours, Vol. I. p. 266; G. SHAW LEFEVRE, Bimetallism and agricultural depression. Gold Standard Defence Association, Leaflet No. 17, London. 1896, pp. 3, 4-6; J. Schoenhof, A history of money and prices, New York, 1896, passim (see especially p. 16); G. M. FIAMINGO. The measure of the value of money according to European economists. Journal of Economics, Chicago, Dec. 1898, p. 77.*

^{*}Even during the period of rising prices 1850-1870 the rise was sometimes explained as due to increased demand produced by increased wealth, and so accounted for without resorting to a change in the value of money. So V. Lanjuinais, Nouvelles recherches sur la question de l'or, Revue des Deux Mondes, July 1, 1855, pp. 122-4; BORDET, op. cit. pp. 30-6; V. Bonner, La variation des prix, in the same Revue, Aug. 15, 1869, pp. 945-6, 955, reprinted in Litudes sur la monnaie, Paris, 1870. pp. 42-5, 65-7 (spoke of "the alleged depreciation," which he denied; but later admitted it for this period, La sirculation fiduciaire et la crise actuelle, in the same Revue, April 1, 1884, p. 686). This is the same tendency of thought (to exculpate gold), but with less justification, since it can rest upon no kind of value in which money can be represented as stable. Similarly in the period of rising prices at the end of the eighteenth century, which culminated during the paper inflation at the beginning of the nineteenth, there was an opinion (said by Adam Smith to be prevalent, p. 99a, and ascribed by him to the mercantile system, p. 110a) that the progress of civilization and wealth, with increased population and taxation, etc., naturally leads to higher prices; - C. Bosan-QUET, Practical observations on the Report of the Bullion Committee, London, 1810, 2d ed. p. 132; A. Young, Enquiry into the progressive value of money, etc., pp. 77, 86-7, 119-24; CRAUFURD, pp. 126, 144, 146, 160; (an opinion which has survived in A. G. Cournor, Recherches sur

A general fall of prices is sometimes principally ascribed to prolonged peace, as permitting improvement and increase in the production of commodities [other than the money-material], while war causes rise of prices by interfering with production. So CHILDERS in L'Économiste français, Dec. 11, 1886, p. 719, and MCCLEARY, op. cit. p. 9, again p. 44.

Similar is also the position of those who generalize from such concrete cases, and who maintain that the progress of civilization leads normally towards a reduction of prices, without the fault of variation therefore attaching to money, on the ground that it is proper for prices to follow, and to mark, the reduced costs of producing commodities. Such a position we have seen sometimes entertained by J. B. Say, J. Garnier, Fawcett, and others, and consistently by Chevalier, Wisner, etc. It is stated in the following extracts:—

ADDINGTON: "Every scientific advance tends to the depression of prices." Evidence before the Gold and Silver Commission, Second Report, p. 212b.

BROUGH: "With the increase of supply [since the introduction of machinery, etc.], comes the reduction in price. This is the natural order of progress, of civilization." The natural law of money, p. 42.

E. CARROLL, JR.: "The more perfect and general becomes the use of machinery, . . . the greater becomes the supply, or the less the effort to secure it, the lower prices must go. The whole aim and trend of civilization for the last two hundred years has been in this direction." Principles and practice of finance, New York, 1895, p. 52.*



les principes mathématiques de la théorie des richesses, Paris, 1838, p. 26; C. Moran, Money, New York, 1863, pp. 126-7).

^{*}This is so, of course, only if the improvement in production does not extend to the money-metal. The opinion of Jevons, *Investigations*, p. 158 (cf. pp. 110, 128, 131-2, 138), and of Giffen, *Essays*, 2d Series, pp. 29-30, 33, 93, *Case against bimetallism*, p. 74 (cf. also C. F. Bastable, art. *Money* in the Encyclopædia Britannica, 9th ed., 1883, Vol. XVI. p.

Bordering upon fanaticism in adherence to this position, is the opinion of those who think it is the natural course of civilization for prices to fall with falling costs (of commodities, as if it were natural for gold to be stable in cost-value), and who condemn anything else as if to prevent the fall of prices were to prevent the reduction of costs. Here may be quoted passages which would surely have never been penned if their authors had paused to reflect a moment:—

M. G. MULHALL: "It would be monstrous if prices remained the same in spite of cheapened transport, improved machinery, and all the efforts of scientific progress." History of prices since the year 1850, London, 1885, p. 5.

Wells: "He who attempts to check or counteract such a reduction of prices is opposed to increasing civilization and an enemy of the poor." Recent economic changes, pp. 250-1, cf. pp. 78, 258, 447.

L. Bamberger: "Just because there has been an improvement in living, it would be false to work against such improvement by seeking to raise the prices of the mass of commodities and thereby to depress again the general improvement." Die Stichworte der Silberleute, Berlin, 1893, p. 54.

[H. WHITE]: "The whole silver movement is simply a preposterous attempt to keep prices up when science, art, invention, discovery are knocking them down." *Editorial* in New York Evening Post, March 30, 1894.*

SCHOENHOF: "As cheapness is the result of plenty and of law and order, it is difficult to see how the phenomenon [of extraordinarily low prices] can be changed except by turning the hands on

⁷²¹b), that falling prices are to be expected as the normal course of things in the future on account of improvements in production falling more on the side of commodities than on the side of the precious metals, is of a different nature, since it does not ascribe this expected course to the advance of civilization, but to the one-sidedness of such advance, and does not involve approval of it by identifying it with such advance.

^{*}For a good criticism of this see an article from the Baltimore Delawarean quoted by Stokes, op. cit. pp. 115-17.

the dial backward, drowning inventors and destroying the improved tools, as was the practice in the past." Op. cit. p. 307.

Similarly WHITTICK looks upon stability of prices as "a denial of progress," on the ground that our aim should be to reduce costs (=values = prices), op. cit. pp. 120-1.

More intelligent advocacy of stability of money in cost-value is shown by those who recognize that a variation in the cost of production of the money-material in accord with the average variation of the cost of production of commodities in general (in a more even advance of civilization) would maintain the average of prices at a constant level, but who do not want this condition, thinking that it would mean a fall of money in "value" along with the fall of commodities in "value," and desiring that money should remain constant in "value" while commodities fall in "value." This is found in the following:—

E. NASSE: "A decrease in the amount of labor and capital needed for production could not remain without influence upon the money prices of the products, if money had the qualities of a good measure of value. Unless the causes directly determining the price [= value] of money changed, a widespread fall of prices would have to set in. Only if there had existed on the side of money an equally powerful tendency toward cheapness, would it have been possible for those products to maintain their prices?" In the Preussische Jahrbücher, March 1885 (quoted by Soetbeer in his Materialien, Berlin, 1886, p. 84a). Similarly also again: "In the last twenty years a very great decrease in the cost of production of nearly all important commodities has set in, and this of necessity found its expression in the prices of the commodities, as it was not accompanied by corresponding alterations in the cost of the production of money. . . . All this must have depressed the price of nearly all commodities, provided that gold remained a steady standard of value." In the Second Report of the Gold and Silver Commission, p. 258b. (And he here recognizes that the rise in prices between 1850 and 1860 was due to the fact that "the greatest diminution in the cost of production took place in regard to gold" p. 259 a, and he prefers the conditions since 1873, p. 261 b.)*

Helfferich: "The value of money remaining constant, the cheapening of production and transportation must everywhere lead to a fall of the prices of commodities, in Europe as well as in India." But in India prices (in silver) have not fallen, and even have risen, because there "there were in operation at the same time two circumstances: on the side of commodities, the cheapening of production and transportation, which under otherwise equal conditions must have led to a fall of prices; and [on the side of money the depreciation of silver [= the cheapening of its production], which under otherwise equal conditions must have led to a rise of prices. The latter factor not only paralyzed, but outweighed, the former. The rise of prices in the silver-countries, in spite of the cheapening of production, etc., finds its natural explanation, therefore, in the depreciation of silver and consequently of silver money, and can at best prove the depreciation of silver, which is plain even without it, but not an appreciation of gold." Der gegenwärtige Stand, etc. pp. 13-14.

Similar balancing of the cost of producing the money-material with the costs of producing other commodities, without expressing desire for the stability of exchange-value thereby obtainable, or without abiding by it, or repudiating it, may be found also in Bailey, in his various works; Cairnes, op. cit. p. 411; Giffen, Essays, 2d Series, p. 23; W. Scharling, Der Detailhandel und die Warenpreise, Jahrbücher für Nation-oekon. und Statistik, 1886, pp. 320-1; Farrer, pp. 218, 304-5, 366, 382; Laughlin, Facts about money, pp. 76, 109-10, 114, 192, 194, 196, 250; Davenport, Elementary economics, p. 150.

In particular, they want stability of money in costvalue who—writing before the recent developments in gold mining—regarded, and recommended, gold as a better standard of "value" than silver on the ground



^{*}Yet he here says, "A slower alteration of prices [since 1873] would, in my opinion, have been better," p. 261a. But this could not be without gold ceasing to be a "steady standard of value," unless he held that actually gold had risen somewhat even in (cost)-value.

that gold is produced mostly by unskilled labor, without the aid of machinery, and so is little subject to improvements in production, while the production of silver is more a regular industry and therefore, like that of most commodities, subject to improvements due to advance of science, which means, in their phraseology, a "depreciation" of its "value." This view may be found in the following references:—

CHEVALIER, art. Monnaie in the Dictionnaire d'Économie politique, 1854, pp. 205-6 (referring to Senior), cf. in the Revue des Deux Mondes, April 1st 1847, p. 46; Levasseur, La question de l'or, pp. 332-3; Carreras, p. 330; Quenstedt, op. cit. pp. 21-3; Shadwell, p. 292 (referring to Cherbuliez); Jevons (in later period), Investigations, p. 311; Wells, Recent economic changes, pp. 255-6; Leaver, op. cit. p. 8; S. Waterloo, Honest Money, Chicago, 1895, p. 52.

(B). On the other hand, economists that may be definitely held to wanting stability of money in exchange-value proper, in accordance with the commodity standard, are those who hold that variation in the "value" of money is directly indicated by a change of the level of prices, and who add that this is so independently of the position of the causes operating on prices, that is, without regard to whether the causes are on the side of commodities or on the side of money. whether the change in the labor cost of production is in the commodities or in the money-material, or in both, the object of attention being not an absolute change on either side, but a relative change between the two sides. Especially so, if in measuring the variation in the "value" of money by means of prices, they do not care to invoke any explanations of the particular changes in the prices of individual commodities singly and separately, but deal with commodities in one mass, and hold that the "values" of all commodities cannot rise or fall together (which is true only of exchange-value), and so take all commodities as a permanent standard of "value."

For the relativity of the causes see passages from Torrens (Essay, p. 56), Scrope (p. 406, etc.), Stirling (pp. 69-70), already quoted. Also this: "Nothing can change relative value except that which alters relative cost of production; what acts equally on all commodities will alter the exchangeable quality of none," Bagehot, Economic studies, London, 1880, p. 203. Cf. Perry (Elements, pp. 79, 110, etc.)

Against paying attention to special causes in individual commodities, JEVONS, *Investigations*, p. 68, cf. pp. 155-6; A. WALKER, pp. 183-4; J. S. NICHOLSON, *Treatise*, pp. 63, 330-1, 335-6.

That the fall of prices after 1873 means appreciation of gold without regard to the causes, Andrews, An honest dollar, revised ed. pp. 5-6, 45; Fonda, op. cit. pp. 99-100; etc.*

From the fact that all commodities cannot rise or fall in exchange-value together, the inference that they all together constitute the constant standard of "value" has been drawn by Fonda, op. oit. p. 18.

Especially are they advocates of money being stable in exchange-value who say that for money, as for any commodity, to remain constant in "value" it has to, or ought to, vary in its cost of production proportionately with the average change in the costs of production of commodities in general, in order to keep itself on equal terms of exchange with them. This position we have seen occupied by Mr. Elder.

So Scrope, p. 405, already quoted, and Hertzka, Das Wesen des Geldes, p. 37, already reviewed.

BAGEHOT: "If the increase in the productive power of general industry [in the last thirty years] had come upon an age strait-



^{*}So Taussig, op, cit. p. 106 with regard merely to the term, without disapproving the fact.

ened as to money-making industry, the fall of prices would have been such as we have no example of, and the effect would have been harassing and confusing. But fortunately the production of gold and silver has been even more facilitated than that of most other things. There has been no such confusing fall of price, as, except for the new discoveries of gold in California and Australia, there would have been. The effect of the productiveness of industry has been greatly to retard and almost to prevent the equally confusing rise of price which would otherwise have happened." Op. cit. p. 177.

H. Schmidt: "The fall in prices is represented [by W. Fowler] to be a fall 'due to the ingenuity and energy of men.' Nobody will deny that those influences tend to lower real prices. But as they are universal they ought to tend to lower the [real] prices of the precious metals, i.e., of money, and thereby in a rough manner, reëstablish the equilibrium by restoring the old level of prices." The silver question in its social aspect, London, 1886, pp. 41-2, cf. p. 9.

C. HECHT: "The ideal of a universal equivalent-commodity is such a one the value of which depends upon variations in the productivity of human labor in nearest possible equality with the average of the other commodities." Anti-Bamberger, Berlin, 1894, p. 42, cf. pp. 35, 43, 48-9, 51.

Over against those who prefer gold to silver for standard money on account of the production of the former being by unskilled and hardly improvable labor and the production of the latter being improvable in the same manner as other mechanical and chemical industries, there seem to be few who have recommended silver for this very reason, viz. that its cost of production is likely to be cheapened more in keeping with the cheapening of commodities in general and thereby preserve more stable its exchange-value. This position has probably been overlooked because it has been much easier to argue for the greater stability of silver on the ground that it is produced in a regular industry, while

the production of gold is intermittent, its deposits being discovered at irregular intervals and quickly exhausted.

This argument, e. g. by R. H. Walsh, pp. 90-1; J. B. Dumas, in *Proceedings* of the International Monetary Conference held in Paris April-July 1881, Cincinnati, 1881, pp. 458-9; É. de Laveleye, in the *Compte Rendu* du Congrès monétaire international tenu à Paris Sept. 1889, Paris, 1890, p. 174.

§2. (2). Attitude toward abundance. (A.) Those economists are dealing with "value" in the sense either of cost-value or of esteem-value (principally the latter) and want money to be stable in such value, who, as in the preceding division, upon a change in the general . level of prices, will not allow a change in the "value" of money unless it can be proved that the cause of the price-movement lies on the side of the money wholly or partly, and not, or not altogether, on the side of the commodities, and who now seek for the cause. not in the cost of production of the money-material or of the commodities, but in the quantities of the money-material or of the goods produced, and who can thereby explain, or explain away, the changes in prices separately or collectively. These economists want the supply of money to be relatively constant with the demand for it in the sense of desire; and while commodities in general, say, may be increasing in supply not only absolutely but in comparison with the increase of population, and therefore outrunning the demand or desire for them, and losing some of their final utility, thus diminishing in esteemvalue (as well as in cost-value because of greater facility of production), want money to stand apart from this course and to retain not merely the same difficulty of production or acquisition as before, but the same rela-

tionship to our desire—the same final utility—the same esteem-value. In accordance with this view the falls in the esteem-values of the commodities should be marked by corresponding falls in their prices, and the greater and more widespread these falls, the better. Thus the general fall in prices which set in with the introduction of the single gold standard is approved by these economists on the ground that it has followed. with sufficient closeness, the falls in the esteem-values of goods due to the enormous increase in their production (itself due to the falls in their cost-values): wherefore the position of money (gold) has remained steady in "value," and the quantity or supply has been great enough, not to keep up prices, but to keep up the "value" of money, and consequently, in their opinion, there has been no scarcity of money. They frequently attempt to back up this claim by appealing to such facts as the low rate of interest, plethora of loanable funds. and large cash reserves on the one side, and on the other to the great actual increase in the production of gold and extension of credit substitutes for metallic currency. as also to the condition of stationary or even rising wages; all which facts, except the last, are supererogatory, if their desire for money stable in such value be the just one, and if the fact of gold having been stable in such value can be proved, which must be done in some other way.* Another argument in accord with this



^{*}These additional arguments are often advanced to prove simply that the general fall of prices cannot have been caused by an insufficiency of gold (or of credit substitutes) (s. g. by Farrer, pp. 60, 100, 128, 133, 141, and Laughlin, Facts about money, pp. 227-8, 230, 243). In this bare shape they are absurd, because here the term "insufficiency" (or its kindred) can only refer to insufficiency to keep up prices, and so they are belied by the fact that prices have fallen. The real meaning of

position is that the fall of prices has been due, not to undersupply of gold, but to oversupply, or overproduction, of commodities; which, however, is injudicious, since it seems to put blame upon the producers of commodities, as if they could, all of them, overdo the business of producing useful goods, and suggests for correc-

those who use these arguments is as above construed - that the fall of prices has not been caused by an insufficiency of gold (or credit) to keep up the esteem-value (or cost-value) of gold. But even in this form these arguments (except the last, which is incomplete), are failures. For the first set is of facts which cannot be proved to be necessarily connected with money stable in esteem-value (or cost-value), and only with money so behaving, even in a period of progress. And the second set is of facts which are only relative to the fact sought to be proved. Thus, on the assumption that money is wanted to be stable in esteem-value, if money has been steady in esteem-value, the great production of gold and extension of credit has been sufficient; if money has risen in this value, these factors, however great they may be shown to be (even in comparison with the increase shown in other industries), have not been sufficient; and if money has fallen in this value, these factors have been too great; while again, on the assumption that money is wanted to be stable in some other kind of value, the sufficiency or insufficiency of these factors must be determined by the result, not the result by them. As for the last argument, this of course is valid only to show that money has not risen in esteem-value. Thus when, e. g., Mayo-Smith says: "If the fall in prices is due to a scarcity of money, it would seem as if wages should have fallen also," Political Science Quarterly, June 1900, p. 209, he cannot mean there is sufficiency of money to keep up prices, since prices have fallen, and he must mean there is sufficiency to keep up wages, as wages have not fallen, the only real meaning additional to these analytical propositions being that he considers the latter sufficiency the principal one, that is, he holds the wages standard and not the commodity standard. But no argument is hereby given to show why the one standard should be preferred to the other; which argument must be sought elsewhere. We are here, however, concerned only with finding what wish in regard to the value money ought to be stable in is entertained by various economists, with ultimate view of reaching some conclusion as to which wish is the proper one. But if this turns out to be esteem-value (or cost-value), the correct method of measuring constancy or variation in this value will call for more attention than it has yet received.

tive reduction in the production of goods, which would be generally condemned, and brings on invidious comparison with the corrective of increasing the supply of money, contrary to the intention of those who rely on this argument.

This position is intimately connected with the attitude toward cost of production, since the increase of supply (at least that which is relative to the increase of population) is generally connected with decreased cost. Hence the references used in the preceding division can be mostly referred to here. But attention may be specially drawn to the writings of FARRER, who frequently contrasts the supply of gold and the supply of goods, and finds the cause of the fall of prices in the increase of the latter, pp. 61, 65, 134, 250, etc.

The ascription of lowered prices to overproduction may be found in HANSARD, op. cit. p. 40, and in others; cf. also HADLEY, p. 213. The following statements, made by defenders of the gold standard, deserve quotation, both taken from the Währungsdebatte im Reichstag, Feb. 1886, as published by the Deutscher Verein für internationale Doppelwährung, Berlin, 1886: "The general pressure upon the price-level of all goods has in no wise been brought about by the introduction of the gold standard in Germany, but the general fall of prices is a consequence of overproduction due to new inventions, and probably many years more will go by before the power of consumption in the world will have grown up to this overproduction," WOERMANN, p. 24; "So long as competition and the production in mass throughout the world is not again brought into harmony with the world's consumption, so long will this strife [depressing prices] continue, and it will not cease till production again begins to confine itself somewhat more closely to consumption," LOHREN, p. 60.

Especially manifest is this position when it is denied that while the "values" of commodities, so measured by the relation of their supply to the demand or desire for them, are falling, the "value" of money ought to fall in unison with the average of such falls. This denial we have seen made by Mr. Coste, and beside him we have seen several economists treat such a fall in this kind of value of money as simply a fall in its "value," without admitting consideration that it might be stationariness of its "value" in another sense of the term.

(B). On the other hand, they are advocates of the stability of money in exchange-value proper, and are users of the commodity standard, who explain a general change of prices by ascribing it to a relative change in the abundance of money compared with the abundance of commodities. In particular, such are they who ascribe the late general fall of prices to a "relative scarcity" of gold, which means merely an insufficiency of gold to keep up prices, as desired by them. opinion such insufficiency or relative scarcity is shown to exist ipso facto by the actual fall of prices, if once admitted, in spite of an increase in the actual supply of gold, and in spite of enlarged use of credit substitutes for metallic currency, however great these may be found to have been; since these are shown by the actual fall to have been more than offset by some other factor. which is found in a still greater increase in the quantity of goods calling for gold or its substitutes in exchange. this increase being accounted for partly by augmented population and improved and increased production (including transportation) of goods, partly to enlarged use of cash payments, and partly to passings of several countries from the silver standard, or from paper currency, to the single gold standard and assumption of gold currency.

For the general principle see SCROPE and STIRLING already quoted; also TORRENS, Sir Robert Peel's Bill, 1848, pp. 61-5,

LEVASSEUR, pp. 12-13, and GIFFEN, Essays, 2d Series, p. 38 (1885). See also RICARDO, p. 398 near bottom.

During the period of falling prices after 1820 C. C. WESTERN tells us that whenever there was contraction there was a cry about redundancy of goods, himself adding that the redundancy of goods was only relative to the reduced quantity of currency, and that there was no other redundancy, Letter to the Earl of Liverpool on the cause of the present embarrassment, etc., London, 1826, pp. 25-6.

That the fall of prices after 1873 was due to relative scarcity of gold has been admitted even by some monometallists: GIFFEN, Essays, 1st Series, pp. 330-9 (1879), 2d Series, p. 23 (1885), The case against bimetallism, 1895, pp. 219, 222; Goschen, On the probable results, etc., 1883, pp. 276ff.; W. Scharling, Die jetzige Geschäfftsstille und das Gold, Jahrbücher für Nation.-oekon. und Statistik, 1885, p. 191 (due to a disproportion, Misverhältniss), (against ascribing it to overproduction of goods, pp. 190-203, 218, 308-9), Der Detailhandel, etc., 1886, pp. 308-19; A. Sauerbeck, Prices of commodities and the precious metals, Journal of the Statistical Society, Sept. 1886, p. 620 (would say "insufficiency of supply" instead of "scarcity"). (Some of these monometallists have desired to rectify this condition by increasing the supply of credit currency.)

This, of course, is the position of the bimetallists: e. g. D. WATNEY, Evidence before the Gold and Silver Commission, Second Report, 1888, qq. 9474-5, 9478; W. H. HOULDSWORTH, The fall in prices of commodities, An address at Bradford, Nov. 1894, published in London, pp. 5-10 (in opposition to Shaw-Lefevre; does not recognize any other meaning of "appreciation" than rise in exchange-value); L. L. PRICE, p. 199; etc., etc. They sometimes mislead by omitting the qualifying term "relative" before "scarcity." (Their desire is to rectify the fall of prices by increasing the supply of metallic currency.)

For the criterion of a sufficient supply of money (according to this view) see Horton as already quoted (above, p. 190), and the following: SAUERBECK, the question is whether there is enough to carry on trade at a certain average range of prices, op. cit. p. 621; FOXWELL, "The only test is the index number. If the index number continuously falls, then prices are unstable, and this is a sign that money is scarce," in the Compte Rendu of the Congrès monétaire international, Paris, 1890, p. 208.

Especially clear in advocacy of stability of money in exchange-value are they who declare that there ought to be a variation in the relation between the supply and the demand of money proportionate to the general or average variation in the relation between the supply and the demand of commodities—that there ought, for instance, in a period of progress, to be a fall in the esteem-value of money equal to the average fall in the esteem-values of commodities. This is the position we have seen held by Professor Walras.

This position was also held by SCROPE in one of the passages (p. 405) quoted from his work. It also appears in the sequel to the passage referred to in *Das Wesen des Geldes* (p. 37) of HERTZKA, and likewise in some of the passages referred to of HECHT.

It is, of course, implied in the position of all who want money to be stable in exchange-value and who desire progress.

In this division of our subject we have been dealing with the so-called quantity theory of the value of money, which is nothing else than the general demandand-supply theory of value, applied to money, in opposition to the cost-of-production theory. Those recent economists who, for a special ulterior purpose, have sought to discard and deride the quantity theory, genrally confining their refutation to some extreme and erroneous form or forms in which it has sometimes been stated, may turn back to the preceding division and content themselves with what is there said about the relationship between the cost of the money material and the costs of goods. Here it deserves to be added that the quantity theory has generally been interpreted as if it had reference, or application, only to the exchangevalue of money. This is not correct. It can apply to

all the kinds of economic value (except, of course, usevalue). Given a certain condition, whether stationary, retrograding, or progressing, of the production and supply of commodities, the supply of money (along with the rapidity of its circulation and the use of credit substitutes) will affect all the kinds of value of money, and, except in the stationary condition, the same supply will affect them differently, so that, also, the same effect may be produced by varying the supply. Thus the cost-value of money will be kept steady by a certain supply of money,* its esteem-value by a certain other supply, and its exchange-value by still another (and in a progressive period larger) supply. In fact, we have seen many economists advocating plans whereby each of these kinds of stability of value should be obtained by regulating the issues of paper money (or the governmentally controlled issues of metallic money)—the far greater number, however, desiring such regulation with a view to obtaining stability of money in exchange-value. Essen-



This in spite of assertions that cost-value is determined by cost of production, without regard to the quantity supplied or the quantity demanded, the former being supposed in the long run to adapt itself to the latter. For in a commodity stable in cost-value such adaptation must take place without requiring application to sources of different fertility. This can be only in special cases: (1) where sources of a given degree of fertility are so abundant as to provide the maximum likely to be demanded for a long time to come; (2) where the more fertile sources are so scanty as not to provide the minimum demanded. Otherwise the application to more fertile sources must be compensated by increased expenses of extraction or transportation, or to less fertile sources by improvements in methods of production and transportation,-and reversely. A commodity produced under such circumstances is not likely to be found; but a paper money may be conceived of as stable in costvalue if its supply behaved relatively to the demand in the same way as would behave the supply of a commodity money stable in cost-value because of such adaptation of its supply to the demand.

tially similar positions may be found in economists who recommend only free or open coinage of some metal or metals, and therefore abandon all idea of governmental regulation, leaving the matter to nature; for these often state how they would like to see nature perform this function.—how they would like to have the natural supply of money conduct itself. Continual increase of population and wealth, or advance of material civilization, being taken for granted, it is a common thing to find economists expressing a desire that the supply of money should increase for the purpose of keeping steady the "value" of money (whether or no they allow for the increase of other factors working to the same end). In some cases it is not plain what kind of value they had in mind, themselves not being clear on the subject:* but in most cases it is plain on analysis which kind of value it was. Some of them have desired the increase to the proper extent for keeping steady the cost-value of money. Such a one was Ricardo, who once avowed this desire (p. Others have desired the increase to the proper extent for keeping steady the esteem-value of money. are those, virtually, who think the supply of money sufficient so long as wages or earnings do not fall. But again, here also the large majority of the economists displaying desire for increase in the supply of money are those who want it to the proper extent for keeping steady the exchange-value of money, especially if they go beyond and prefer the supply to be more than enough rather than less than enough for this purpose, even in a period of progress. Among these may be cited-



^{*} E. g. Bordet, op. cit. p. 44; Bonnet, Études, p. 49.

FAWCETT, pp. 366, 389-70, 409-10; CERNUSCHI, Mécanique de l'échange, Paris, 1866, pp. 139-40; BAGEHOT, The depreciation of silver, London, 1877, p. 61; W. NEWMARCH, On the progress of the foreign trade of the United Kingdom from 1856 to 1877, a paper read before the Statistical Society, May 1878 ("the world ought to rejoice if a new gold-field could be discovered every few years"); Goschen, op. cit. p. 281; Giffen, Essays, 2d Series, pp. 53, 84-5; Scharling, Die jetzige Geschäfftsstille, etc., p. 298, cf. p. 307; ARENDT, op. cit. p. 39; MARSHALL, Remedies, etc., p. 359; LAVE-LEYE. La monnaie, etc., p. 11; E. SUESS, Die Zukunft des Silbers, Vienna and Leipzig, 1892, p. 113, Verhandlungen der deutschen Silberkommission, 17-20 Sitzung, p. 71; SHERWOOD, pp. 97, 225; R. T. Ely, Outlines of economics, New York, 1893, p. 152; Beeton. op. cit. pp. 30-1; W. Fisher in Supplement to Economic Studies. Vol. I. No. 1, (American Economic Association), p. 63; A. J. WARNER, ibid. p. 71; E. BABELON, Les origines de la monnaie. Paris, 1897, p. 249 (cf. pp. 245-6; he rejects the labor standard. pp. 234-6).

It may be noticed that this desire about the conduct of metallic money has reference principally to the course of the value of money over long periods. For short periods, to prevent or reduce fluctuations, reliance is sometimes put upon a correctly regulated issuance of credit currency: -e.g. "By a due regulation of its issue, the measure of value in any country can be kept more steady in value than if the currency were solely based upon the precious metals," R. H. PATTERSON, The economy of capital, or gold and trade, Edinburgh and London, 1865, p. 446 (by "value" he means exchange-value, see pp. 44-8, etc.). Cf. also RICARDO, pp. 397, 399.* To insure perpetual constancy of money in exchange-value. Walkas has further recommended passing and repassing, when necessary, between four different systems of metallic money (silver, bimetallism, limping bimetallism, gold), in what he calls a "monetary quadriga," Eléments, 2d ed. pp. 482-4, Études, pp. 148-51. This might be extended to include govern-

On the other hand compare this: "To suppose that the banks can so regulate their issues as to maintain permanent prices, is to ascribe to them a power which they do not possess, and which, if they did possess, they ought never to use," J. W. Gilbart, The history and principles of banking, London, 1834, p. 142.

mentally regulated money, and inconvertible paper money (or redeemable in alterable quantities of metal).

§3. II. (3). Attitude toward contracts. In regard to loans and contracts in general a principle universally agreed upon is that what is borrowed should be repaid. what is promised should be fulfilled. The question. then, is: What is the real substance in a loan or a con-In most loans and contracts certain sums of money pass and are called for. The same sum must therefore be paid. Now the old-time adherents of the extrinsic-value theory of money maintained that when the same number of denominations is paid as called for. the debt is satisfied. These are at sea in the giving of advice to government, if government contemplates a change in any feature of its monetary system: for they have no definite conception about any other fixity in a sum of money. Opposed to these are the adherents. now most influential, of the intrinsic-value theory of money, who hold that the substantial thing in a sum of money is the quantity or weight of precious metal it contains, and who thence conclude that if an alteration in this takes place between the contraction and the solution of a debt, the sum of denominations should be changed so as to retain unchanged the quantity of These likewise do not pay attention to other kinds of value in which money may in the meanwhile vary; or at least they would have no attention paid to it in ordinary practice. In theory, however, they allow that we may consider in what other kind of value - in what kind of economic value—the fixed quantity of metal would best remain stable: and this is the question before us.

For in a loan or other contract, although a fixed sum

of denominations or a fixed weight of precious metal is the thing named in the bond, yet it is not this which either the debtor or creditor is principally concerned Money is primarily a medium of exchange, and that in which we are all principally interested in the money we possess, borrow, or contract for, is what else we can get with it in exchange. This has led economists to compare money with a ticket or token entitling the bearer to a certain article surrendered or to its equivalent, or with a bill of exchange upon society at large for future payment for something given up to a member of society. A holder of money, unless he has received it as a gift or has stolen it, has got it in return for something he has given for it, and it transmits to him the power of getting something else in return for it whenever he later pleases. Thus money itself, even the metallic, represents a debt, and even in paying a debt merely passes on another claim for payment. Now, this power, or claim, or right is value. The questions, then. in what kind of value debts should be paid, and in what kind of value money should be stable, reduce to one and the same. And this fundamental question is: What kind of thing is it to which a right is conveyed in a debt and incorporated in a sum of money, which therefore ought to be restored unchanged in the quittance of the right, and in regard to which money should remain stable?

Apart from assertions frequently made that money is a pledge entitling the bearer to the return of as much value as he gave, which are ambiguous, the above question is answered in two distinct ways, and in a third, which is a combination of the two. The things which money represents and the right to which money is

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intended to convey are said to be sometimes (1) commodities, sometimes (2) labor, and sometimes (3) a combination of these. And here also we get again all the confusion we have already waded through; for economists do not abide by their own statements. However this be, we find the first of these answers given by the following economists:—

Boisguillebert: Silver turned into money is of no use except as guaranty that the seller of a commodity shall get as much as if he had bartered it directly, Factum de la France, 1707, ch. iv.; money is a receipt given by one who receives goods, with guaranty, Dissertation sur la nature des richesses, ch. ii.

FLEETWOOD: "Money is of no other use, than as it is the thing with which we purchase the necessaries and conveniencies of life." Chronicon preciosum, 1707 (2d ed. 1745, pp. 48-9).

ADAM SMITH: "A guinea may be considered as a bill for a certain quantity of necessaries and conveniencies upon all the tradesmen in the neighborhood." P. 126a (cf. also p. 156a and b, and G. GARNIER'S comment in Vol. V. pp. 428-9 of his translation).

H. THORNTON: "Money of every kind is an order for goods." Enquiry into the nature and effect of the paper credit of Great Britain, London, 1802, p. 260.

J. S. MILL: Pounds and shillings are "a sort of tickets or orders," payable at any shop. Vol. II. p. 9.

BEETON: "What is it that the borrower of a certain sum of money in fact receives? Is it not the purchasing power which the money gives him over things in general, which he can exercise as he pleases; and it is obviously this same purchasing power which he should restore to the lender to be exercised by him in turn as he pleases. . . . As Professor Smart has recently phrased it: 'The only proper repayment of money is a repayment such as will put the creditor back into the same relative position to all other commodities as when he lent the money.'" Op. cit. pp. 17-18.

LAUGHLIN: "We know it [money] is only a medium for getting from goods to other goods." "When a man borrows \$1,000 he borrows a claim on goods in general, and the money is only a go-between." Fucts about money, pp. 80, 152.

The second is given in various unprecise statements, as follows:—

BERKELEY: "Whether power to command the industry of others be not real wealth? And whether money be not in truth, tickets or tokens for conveying and recording such power, and whether it be of great consequence what materials the tickets are made of?" The querist, 1735, q. 35.

Galiani: "Coins are tickets which ultimately are a representation of the credit one has upon society by reason of labors (fatiche) for it sustained either by the bearer himself or by others who have given it to him." Della moneta, 1750 (ed. Custodi, Vol. I. pp. 148-9).

Kant: "Money is the generally used means of trafficking the industry (*Fleiss*) of men with one another." Die Metaphysik der Sitten, 1797 (Hartenstein's ed., Vol. VII. p. 86).

Bastiat: A piece of money testifies to a service rendered, for which equivalent satisfaction has not yet been taken, and virtually bears the inscription: "Pay to the bearer a service equivalent to the service he has rendered to society," etc. Oeuvres, Vol. V. pp. 80-81, similarly Vol. VI. pp. 25, 209.

M. A. MILLER: Money "only represents labor." Op. cit. p. 89.

WHITTICK: "The dollar represents a certain difficulty of attainment." Op. cit. p. 81, cf. p. 86.

HADLEY: "The debtor was not borrowing a certain amount of comfort from the creditor. He was borrowing a certain amount of control of labor." P. 213.

The third is not so frequently stated, but is found in the following:—

J. GARNIER: Money "functions as an assignation or a bon giving the bearer right to procure directly all products and services." § 420.

MACLEOD: "Currency does not represent commodities, but an abstract right or power of demanding services in general, which may or may not be commodities." *Elements*, p. 39. "The true nature of money is now apparent. It is simply a right, or title, to demand some product or service from some one else." *Theory of*

oredit, p. 75. (Cf. also this: "When the laborer has received his wages in money, he has not received an equivalent for his labor, but only something which will enable him to get what he requires, or chooses. The money, therefore, that he possesses is not the equivalent, but it is the symbol or proof that he has rendered services for which he has not yet received an equivalent." Elements, pp. 65-6.)

Although, as we have seen, the makers of the first set of statements have not always abided by the logical conclusion therefrom, yet none the less the logical conclusion is that if money is intended to keep the holder of it in the same position toward commodities and comforts money should be stable in exchange-value From the second statement, that money is to restore the same command over labor and industry, it does not necessarily follow, as we have seen, that money should be stable in labor-value. Yet the supporters of this doctrine of labor-value ought logically to rest it upon the opinion that money is an intermediary, not between goods and goods, but between labor and labor -with the addition, generally suppressed, that no allowance is to be made for improvement in labor. Similarly, those who maintain that money should keep the holder in the same situation relatively to goods and labor, ought to state the proposition about the nature of money in the third form.

Now, in a stationary period it is indifferent which of these answers is made, since they all coincide in such a period. But in a period of progress such as the world has enjoyed almost continuously for several centuries, the first two answers diverge, leaving room in between them for the third. For in a period of progress a certain amount of commodities may be produced with less labor, and a certain amount of labor may produce more

commodities, at the end than at the begining of a loan. Therefore (1) if the loan is repaid in the same amount of commodities (in money with the same purchasing power, the same exchange-value), the debtor gets all the advantage of the lessened labor, or if he works as much as before, he gets all the increase of product, while the creditor is no better off, as regards the return of his loan, than if there had been no progress. If (2) the loan is repaid in the same amount of labor (in money with the same command over labor, the same laborvalue, the amount of labor, improved in efficiency, being measured by the hour), the creditor gets all the advantage of the increased commodities, while the debtor is in no wise aided, as regards his repayment, by the progress. Thus, to conceive of a debt as calling for payment in commodities, is to conceive of a condition which, as regards the borrowing of money, is, in a period of progress, wholly in favor of the debtor; and to conceive of a debt as calling for payment in labor, is to conceive of a condition which, as regards the lending of money, is. in a period of progress, wholly in favor of the creditor. The first of these conceptions then induces, or is induced by, a frame of mind favorable to giving all the benefits of progress, upon their borrowings, to the debtors: and the second induces, or is induced by, a frame of mind favorable to giving all the benefits of upon their lendings, to the Between these opposing views there is (3) another, combining them, which recommends a division of the benefits of progress, in the matter of loans, between the debtors and the creditors, presumably equally. This induces, or is induced by, a frame of mind impartially desirous of letting both these parties share in the

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benefits of progress applied to their loans. We have, then, these three concatenations of ideas: (1) The standard of deferred payments is the commodity standard—money should be stable in exchange-value—the benefits of progress upon loans should all go to the debtors; (2) The standard of deferred payments is the labor standard—money should be stable in cost-value or esteem-value—the benefits of progress, upon loans, should all go to the creditors; (3) The standard of deferred payments is the commodity-and-labor standard—money should vary, in a period of progress, by rising in exchange-value and falling in cost-value or esteem-value—the benefits of progress, upon loans, should be shared between the debtors and creditors.*

On account of the third item in each of these positions it is possible to argue for them by assigning reasons (1) why debtors alone should reap all the benefits of progress upon their borrowings, (2) why creditors alone should get all these benefits upon their lendings, (3) why the two parties to a loan should share the benefits between them. Here, in fact, we have the main line of argument by which a settlement may be reached. To argue, as some of the older economists did, that debts should be paid in the second way because in debts the value to be restored intact is naturally real value, and real value is labor-value (or in the third way, because real value is purchasing power over commodities and labor), is to make a petitio principii, since the very question at issue is as to which kind of value is the real



^{*}In a period of retrogression the disadvantages of decay would in the first position wholly affect the debtors, and in the second wholly affect the creditors, the interests of these parties being inverted. In the third the variations of money would be reversed. But we are hardly concerned with such a period.

value that passes in loans and is stored in money. to conceive of real value as command over labor measured by time is to adopt only one of two ways of referring real value to labor, since labor is measurable also by efficiency; and although that way, in two branches, may be the proper way of relating to labor esteem-value and cost-value, it is not the proper way of relating to labor exchange-value, and the question remains which of these relations to labor is the proper one for the purpose of regulating the repayment of loans - a consideration never entered upon by the old economists. Therefore to argue for this position by appealing to the authority of those old economists, praised by calling them the "classic economists,"* is to rest upon slender support. especially if no account is taken of their division into two sects, each adopting a different way of connecting real value with labor measured by time (the one being for esteem-value, the other for cost-value). Let us then briefly review the arguments offered from the point of view of distribution of the benefits of progress.

These arguments have been debated at various times, when the subject became pressing. Of late they have been bandied between the bimetallists and monometallists, the former taking the first position, and the latter the second, although these, by their arguments, as we shall see, are justified only to the extent of adopting the third. The argument for the first position is that, although some debtors are spendthrifts, the greater number, especially in the modern industrial state, are undertakers of productive enterprises, and that therefore it is but justice that the increase accruing from im-



^{*}As done, for instance, by Taussig, who appeals also to the socialists, op. cit. p. 107.

provement in their labor, or from their management of the labor of others, should all go to themselves (or to themselves and their laborers): * while, on the other hand, the creditors, qua creditors, are inactive, and so have no just claim, beyond the interest contracted for, to receive back a greater purchasing power over the comforts and conveniences of life than they parted with. This we have seen for instance to be the position of Scrope, in an earlier period of falling prices: and it may be found maintained by many of the present-day bimetallists.† And when it is objected that inventors of improved methods of production may be third parties. it is replied that it is the borrowing undertakers of industry who apply the inventions, and also that it is the borrowing investors in present machinery who run the risk of loss through the future invention of better machinery, while the creditors guard themselves against this contingency by a considerable margin in the security they demand, so that it is but just that he who assumes the risk of loss should be the one to profit in case of success. 1 Or again, even admitting the benefits of progress to be an unearned increment, it is urged that it is more advantageous for society at large that this should go to the borrowing producers, as these are the parties the more likely to turn it to productive purposes.



The distribution between these active parties in production is the subject of the next division.

[†]E. g. W. H. SMITH, op. cit. p. 91, and J. H. GRAY in Supplement to Economic Studies, American Economic Association, April 1896, p. 88.

^{\$\}frac{1}{E}. g. by J. A. Smith, op. cit. pp. 54-5, and Shibley, op. cit. pp. 38-42.

[[]E. g. by H. H. Powers in the Supplement to Economic Studies above cited, pp. 72-3.

On the opposite side, supporters of the labor standard have urged, in the words of Bailey, that the creditor has a right to "partake in the advantages derived by the community at large from improvements in production, of which his capital is in truth one of the instruments."* And we have seen Mr. Pollard even treat the subject as if the creditors contributed as much as the debtors toward the improvements, wherefore they, too, are entitled to a "growing share" of the good things of life, during a period of growing general prosperity.† Or sometimes the mere bald assertion is made, like the following by Mr. H. White, that "bondholders are entitled to share with others the advantages of low prices of manufactured goods resulting from new inventions and facilities for production and transportation."‡

It is curious that these economists do not see that this talk about sharing the benefits is an argument only for the third position, and not for the second—not for the labor standard alone, in either of its forms—in support of which it is generally advanced. The idea seems to be that when money remains constant in esteem-value and prices fall to the full extent of the improvements made in production, the debtors get advantage from these improvements on all investments of their own capital and from the greater efficiency of their own unencumbered labor, so that, when the creditors get advantage from their loaned capital, both the two classes are "sharing" in the general increase of pros-

[•]Money and its vicissitudes in value, p. 121. Exception has been taken to this by C. W. Mixter, Samuel Bailey on appreciation, Quarterly Journal of Economics, April 1898, p. 348.

[†]Chapter XVI., the title of which is "The wages-level as the measure of value eternally just both to debtors and creditors."

The gold standard, p. 33.

perity.* The question should, of course, be confined to the distribution of the increase of product derived from the capital loaned, according to the average increase at the time, and it should consider whether this increase of product should all go to the debtor or all to the creditor or whether it should be shared between them. it all to the creditor, and then let the debtor recoup himself from his own capital or by his own labor, is not to divide the increase between the two parties to a loan. These economists also at times seem to interpret the advocates of the first position as if they would exclude the persons who are creditors from all participation in the advance of prosperity. This, of course, is not done by them, since there is nothing to prevent creditors from getting their share by investing and managing their own capital, or by their own labor. The point is that what is done either by the debtor or by the creditor apart from the capital that has passed from the one to the other and is to return again, is beside the question at issue. The question at issue does not deal It deals with parties to special with classes of society. business transactions. It does not ask. What classes of society shall get the benefits of progress, in whole or in part? It asks, On a given loan, during a period of progress, which party to this transaction, the borrower who uses the capital or the lender who sells the use of it for a stipulated sum, shall get the average increase of yield accruing during the time of its use?



^{*}A good instance is shown by Taussig, who, after admitting that it is just for the creditor to be paid in equal sacrifice or labor to what he gave, and therefore with the whole increase of the product, winds up by asking, by way of argument: "And why should he not share with the rest of the community the benefits of a general increase in the productiveness of labor!" loc. cit.

It is interesting to note that there does not appear to be a single economist who has ever claimed that this increase should all go to the creditor. Therefore the pure labor standard remains without any true argument for it. It is, however, held; but it is held on the strength of an argument which rightly goes only to support the third position—the position avowedly maintained only by a few economists, who look upon themselves as compromisers.

§4. (4). Attitude toward wages, or incomes in general. The undertakers of industry stand in relationship both. as borrowers, to creditors, who, qua creditors, are wholly passive, and, as employers, to laborers, who, qua laborers, are wholly active. The relationship between undertakers, as borrowers, and their creditors. during periods of progress, has just been examined. If this be decided either wholly or partly in favor of the borrowers, to the effect that they deserve to get upon their borrowings all or part of the increase accruing from improvements in the disposition and management of capital and labor, the fourth and last question now arises whether the undertakers, as employers, ought not to share this benefit with their employees, who contribute to it by their improved labor. And even if the undertakers must resign to their creditors all the increase upon their borrowed capital, the question may still remain whether they ought not to share with their employees the increase coming from their own capital and from their employees' labor.

Here there is no doubt at all as to such distribution; the doubt is only as to the manner of it. All fairminded persons desire that improvements in production and increase in the abundance of goods shall redound

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also to the benefit of the manual producers of them. that not only the employers, or profit-earners, but the employees, or wage-earners (and salary-earners) shall gain more real wealth. This is a desire that the "real wages" of laborers, or the purchasing power accorded them over the necessaries and conveniences of life (which in their case consist principally of commodities. since they rarely employ other laborers).* shall rise along with the increase of wealth in other classes. And unless the laws of the State are oppressive or the social conditions rotten, this advance in real wages will inevitably be obtained by the watchfulness of the laborers themselves, when there is continued increase in the output of their labor. Now, this advance of real wages may take place most strikingly, and it may be advocated that it should take place, in either of three out of five typical ways in which material progress may manifest itself. It takes place: (1) if the general level of prices remains stable and the general level of wages rises: (2) if the general level of prices falls and the general level of wages is stable; † (3) if the general level of prices

[&]quot;"It is quite plain that the real wages paid by the capitalist to the laborer consist mostly of commodities," Giffen, Essays, 1st Series, p. 344.

†Here it is necessary utterly to repudiate a statement like this:
"According to the strict laws of economical science, when the purchasing power of gold increases, wages ought to fall," Goschen, op. cit. p. 287.
Similarly Nicholson, Treatise, p. 244; Wells, in a passage previously quoted, and Carlisle, op. cit. p. 30; and of great or long-continued falls of prices, Giffen, op. cit. p. 343, and Foxwell, in Report of the Proceedings of the Bimetallic League at Manchester, 1894, p. 61. This is not necessarily true in a progressive period. "Nominal reduction must come somehow," says Giffen, "unless there is to be a real rise of wages," op. cit. p. 344; but this real rise may take place, although Giffen here expects the nominal reduction, i. e. reduction of money wages preventive of the real rise, as also in \$2d Series, pp. 36 and 474.— That wages must fall if there is "appreciation" of money, as said by Leighton and by Helfferich in

falls and the general level of wages rises.* Or if it be assumed that there is a fair division of the increase between the employers and the employees, or if this question be left aside and attention be extended to the whole body of workers and even of society, the term "earnings" may be substituted for "wages." Earnings may represent either the net products remaining in the hands of the producers, or the gross earnings, covering also what goes in rent and interest to the passive owners of land and other capital. The former would seem to have closer connection with the subject of cost-value (but only in unmonopolizable industries), and the latter with that of esteem-value. In each case concern is for the average or per capita rate. In the last and widest sense the term "income" may be substituted as more precise than "earnings:" and now the advance of prosperity may show itself in these three ways: (1) constant level of prices and rising level of incomes. (2) falling level of prices and constant level of incomes, (3) falling level of prices and rising level of incomes.† And now it is evident that a person who prefers the first of these conditions is an advocate of the commodity standard, and wants money to be stable in exchange-value proper; that a person who prefers the second is an advocate of the wages, or earnings, or income standard,



passages previously quoted, is another kind of statement, being merely analytical, as it depends upon the meaning of the term.

That improvement in the condition of the laborers may be equally brought about in either of the last two ways is recognized by NASSE in the Second Report of the Gold and Silver Commission, p. 261a.

[†]The first and second were pointed out by GIFFEN, Essays, 2d Series, pp. 27-8, and by FOXWELL at the Congrès monétaire international, in the Compte Rendu, Paris, 1890, p. 208, and at the Manchester Meeting, in the Report above cited, p. 60. All three were noticed by TAUSSIG, op. cit. p. 108.

and wants money to be stable in labor-value of some sort (especially esteem-value): and that a person who prefers the third is an advocate of the commodity-andwages standard (or the commodity-and-income standard, etc.), and wants money to vary at a mean between the stable positions in those two kinds of value (or to be stable in the mongrel "exchange-value" conceived as purchasing power or command over both commodities and labor). Conversely, also, it may be said that the first of these methods of distribution is preferred by the advocates of the commodity standard, the second by the advocates of the labor standard, and the third by the advocates of the mixture of the two: for we may assume that everybody wants economic progress. and that nobody would at least deny that he wants the producers, including laborers, to partake of its henefits *

The first is the position properly assumed by the bimetallists, and generally entertained by them even when they do not actually put it in this form. It is put in this form, for instance, by Professor Foxwell, who is reported as saying: "The normal condition is steady prices of commodities, and gradually increasing

There are two other possible positions: (4) that the level of prices should rise and the level of wages or incomes rise more, and (5) that the level of prices should fall and the level of wages or incomes should fall less. But in neither of these does money remain stable in any kind of value, nor do any of its kinds of value vary in opposite directions (so as to give appearance of neutralizing each other), but they all vary in the same direction. Therefore neither of these has ever been advocated, except that the former has been favored by those who prefer "depreciation" (in the sense of falling in exchange-value) to any other departure from stability in exchange-value. The last has hardly been favored by anyone, although we shall presently make reference to a few statementa by economists of repute looking in this direction.

incomes, both in money and in goods."* We have also seen it put in this form by Mr. L. L. Price. It is, of course, as just said, involved in the position of all the advocates of the commodity standard, reference to whom need not be repeated.

The second is the position sometimes fallen into by Adam Smith, Senior, and J. Garnier, and completely maintained by Malthus, Gray, Shadwell, and Pollard, all confining it to stability of wages; and we have seen it advocated at times by Lord Farrer, and once by our government in the person of the Director of the Mint. It is the position generally assumed, or involved in their other claims, by the defenders of the present single gold standard, as an alternative with the third. A few passages to this effect may be quoted:—

HANSARD: "It will be a distinct advantage if the present appreciation caused by the low level of prices continues, and wages or incomes remain the same, as the bodily comfort of our masses will be added to materially." Op. cit. p. 42.

N. G. PIERSON: "Economic progress consists in a continuous fall of prices, while money incomes remain the same or do not decline proportionately." In the Second Report of the Gold and Silver Commission, p. 254b. (This is quoted with apparent approval by MAYO-SMITH, in the Political Science Quarterly, March 1900, p. 36.)

GIFFEN: "The rise of real wages between 1850 and 1870 was a good thing, but it would have been better had it taken the shape of stationary money wages with fall of prices" [i.e. if the period had been like the period since 1870], in the Economic Journal, Sept. 1892, p. 469. (But in 1885 he had said that he would be "surer of the immediate future if wages had fallen more than they have done—if, in other words, the adjustment of money wages to the lower prices of commodities had been more complete



[•]In the Bankers' Insurance Managers' and Agents' Magazine, London, Nov. 1890, p. 1831. See also preceding references.

in all directions than it has been" [6. c. if there had been less or no rise in real wages]. Essays, 2d Series, pp. 35-6. But, again, 6bid. p. 474, he wants wages to fall less than prices.)

The third is also the position of the gold-standard men, indifferently with the second. We have seen it entertained by Professor Leroy-Beaulieu, as a great law of progress.* A few more references may be appended:—

CHEVALIER, fall of prices with rise of wages, a sign of progress, Le simple et le double étalon, Revue des Deux Mondes, April 1, 1876, p. 579 (cf. Monnaie, pp. 727-8); LEVASSEUR, in the Compte Rendu of the Congrès monétaire international, Paris, 1890, p. 91; TAUSSIG, op. cit. pp. 111, 125; E. ATKINSON, op. cit. p. 145; HORR, this "the law of human progress," in The great debate, p. 223; WEISSINGER, op. cit. p. 55.

One or another of these methods of distribution may be preferred simply because it fits in with the conclusion reached through the above-reviewed ways of envisaging the subject. But it would seem as if this aspect of the general question might yield additional argument. is, however, hardly fruitful of such, because of the little difference, when considered merely statically, between the three methods. The argumentation along this line has consequently been the weakest of all. We have seen Professor Marshall, in his Evidence before the Gold and Silver Commission, treat the second method as good and recommendable on the ground that it yields better real wages and causes a more equal distribution of wealth than does a condition of stable prices. the late Professor Mayo-Smith asserted that "the change in price level is necessary in order to distribute the



But he had once thought that a reduction of wages might be necessary, speaking of them as being excessively high, La baisse des prix et la crise commerciale, Revue des Deux Mondes, May 15, 1886, p. 417.

benefits of progress."* The means of distribution by a change in the wages level seems to be overlooked. The same sort of suppression of comparison was carried to excess in the recent campaign literature. One writer confessed that he is "one of those who are glad to see the prices of things becoming cheaper and cheaper, so that the laboring man can buy more and more with every dollar that he receives."† Another, after asserting that in connection with rising wages the fall of prices has measured man's command over nature, alleged that "through it the world is helped in its grand march onward and upward." 1 And still another, after pointing out that with lower prices workmen who get higher wages are better off, convincingly asked: "Why should the fall in prices be thought a calamity?" || For this last method a not uncommon pretension is advanced to the effect that under it laborers are doubly benefited, being benefited both by the fall of prices and by the rise of wages.** It is true that the benefit is here taken in two forms; but this in itself does not show that the benefit is greater than in either of the single ways of taking it, nor has any attempt been made to show that it is so, or why it should be so.

Naturally, in this subject, the only argument of any validity is one that goes to show that under one of these methods of distribution the laborer gets more benefit

^{*} Political Science Quarterly, June 1900, p. 214.

[†]DeWitt Warner, op. cit. p. 379.

I McCleary, op. cit. p. 12.

^{||} Jackson, op. cit. p. 7. It would be a calamity if workmen and others got less increase than they would have got under another system.

^{**}Even Chevalier said that the progress of wealth is extending especially to laborers "under the action of a double cause," Revue des Deux Mondes, April 1, 1876, p. 579.

than he would get under either of the others,—or rather, although this is generally overlooked, that he gets more nearly the right and just amount of his share. This is the dynamic argument, which rarely appears. A couple of instances of it may here be quoted, both in favor of the second position. The one is an argument from advantage of position, the other an argument from diminition of friction.

Forssell: "If I look at things from the sole standpoint of the great bulk of the populations whose livelihood depends on wages, what an evident advantage is this augmentation of the value [exchange-value] of money. They would, doubtless, under this system [of falling prices and contracting money], have to struggle to keep up and defend their wages against masters wanting to reduce them, just as on a rise of prices, an increasing abundance of money, they have to struggle to raise those wages. But what a difference of position; what a difference in these combats between defense and attack. How much easier is conservation than acquisition." In International Monetary Conference, 1881, Proceedings, published at Cincinnati, pp. 274-5. [Here, however, the argument is for falling prices over against rising prices.]

ROBERTS: "If prices fall to correspond with improvements in production." this "affords the simplest and most effective means by which the benefits of progress may be distributed to the masses. The benefits go direct to all consumers, the ignorant and intelligent, the weak and the strong, sharing on comparative equality in proportion as they are consumers. On the other hand, if commodities are always to be stable or rising in price, no matter to what extent labor may be eliminated from them, the benefits from such improvements reach the masses more indirectly, slowly, and unevenly. Each wage-earner to get his share must obtain a certain advance in his rate of pay. How much that advance should be he does not know, and a fight for it always involves risks and difficulties which all are not equally ready or able to meet. The average man is much more independent in claiming the bottom price on what he wants to buy than in demanding the highest price on the labor or products he has to sell." Report of the Director of Mint, in the Annual Report of the Secretary of the Treasury, Washington, 1898, p. 574.

The weighing of such arguments must be reserved for the next Part. Here it may only be added that, as regards especially favoring laborers, the second and third positions are those which distribute more of the benefits of progress to the inactive creditors than does the first. Therefore it would be strange if under those systems the laborers also got a positively larger amount of the smaller share left for distribution between them and their employers.

PART IV. TOWARD A SOLUTION

CHAPTER I

NATURE OF THE STANDARDS

§1. A few remarks are in order about the different standards and the nature of the arguments by which they are to be judged.

The commodity standard is not to be held on the ground that commodities in general are more likely to be stable in "value" than any single commodity such as gold or silver; for that would invoke the idea of some other kind of value than exchange-value, of which this is the standard. It is to be held for the reason that as a mathematical fact the total exchange-values of all things, in given quantities, together are constant, and the general exchange-value of any one commodity, or of money, is to be estimated only by reference to the totality of other commodities:

In practice it is not possible to take account of absolutely all commodities, and only certain workable kinds can be selected, which must be employed with relative weighting according to their importance during the periods compared. Also, from the consumer's point of view, the tracking of retail prices would be the more desirable; and yet it is practicable only to deal with wholesale prices. All that is required in this subject, as in everything else, is to do the best we can. It is

pure captiousness to abandon the commodity standard on account of its imperfections, and to accept other standards which have not been worked out even so well as this. No more in economics than in religion ought we to strain at gnats and swallow camels. The fact, therefore, of our net being able to form an absolutely perfect standard of exchange-value, is no reason why we should cease to desire that money should be stable in exchange-value, provided there is good reason for this desire. And if we entertain this desire, the "multiple standard," with all its imperfections, gives us, to repeat the words of Professor Marshall, "a tenfold better standard of [this] value than that afforded by the precious metals."

Commodities are not the only products that have exchange-value. Services—in the passive sense of work done, not in the active sense of labor—are also exchangeable objects. They ought therefore to be included. And some of them may be—such as the transportation of persons. But the majority, unfortunately, must be omitted simply because they are unworkable. They are left out for the same reason that many commodities are neglected.

§2. But wages, or earnings, or incomes are to be excluded absolutely. They belong in another standard, to measure another kind of value. Some of them, also, constitute a part of the price of goods. As for the wages of domestic servants, these are, indeed, an item of retail expense in the budgets of some classes of society. They could, therefore, enter only a multiple standard using retail prices, which, as above said, is impracticable, and would, at best, only accommodate some classes of society.

If wages are used along with the prices of commodities, it should be distinctly recognized that we are no longer measuring the exchange-value of money, but a mean between it and another kind of value. In this prices-and-wages standard it is essential to determine the relative weight to be attached to each of the two ele-It might seem best to treat them as equally Then equal importance must be ascribed to them as wholes. If fewer wages were used than commodities, compared with the whole of wages and with the whole of commodities, still the wages used should count as equally important with the commodities used. The principle is that, on the one side, the greatest number possible of wages and salaries, or earnings in general, should be contrasted with the greatest number possible of commodities, on the other. Naturally, whatever is shown to be needed in the commodity standard and in the wages standard separately, is to be applied to the corresponding element in this compound standard.

This standard is based upon the idea that there is compensation by wages for prices, or by prices for wages, a rise of wages neutralizing a fall of prices, or conversely. Yet in reality there is little such compensation. To the laborers themselves, instead of compensation, there is cumulation, as they can buy more goods with the same money and earn more money, or reversely. To the undertakers of industry, who employ laborers, in the case of falling prices and rising wages, if there is compensation, it must come from improved machinery, and more economical methods, which are another matter, since the cheapness of the raw materials is offset, and often more than offset, by the cheapness of the product. The compensation is confined to the

class of those who live on fixed i regard to these, it is questionable relatively on services and on cor haps an uneven weighting ought only the wages of domestic serv There is absolutely no compensat prices and the wages of laborers industries. And if the standard prices-and-incomes standard, ther pensation at all, but only cumu desirable in the form of advancing serviceable as a basis for the stamoney. The intermediate stand theoretic justification.

§ 3. The wages standard is pro posed of all earnings. But as wit earnings, many have to be left out It would seem, however, that m wages are workable. Certainly tl are. At all events, the unworkabi such as profits, is the only excuse the earnings standard to the wa show benevolent concern principal ing man is to border upon demag which may be permissible to the the economist. The earnings : imperfect in its kind as is the co its, and, confined to the wages imperfect than the commodity stand wages standard, of course, the reladifferent kinds of wages must be are thus in the wages standard t averaging and weighting, as in the

It is surprising to see Mr. Shadwell, for instance, finding no trouble in the working out of the wages standard, while rejecting the commodity standard for its similar and no greater difficulties. In the wages standard there is one item to be included that has no corresponding item in the commodity standard. The zero price of unsold and unused commodities is not to be counted in the commodity standard. In the wages standard the zero wage of the unemployed ought to be included.* Here is additional difficulty how to make such allowance.

§ 4. The cost standard has generally been treated as a standard of cost of production, or amount of labor required in production, with this being identified costvalue, at least in the case of unmonopolized goods. But no class even of unmonopolized goods is produced at one uniform labor cost. Then the idea of the Ricardian school is that we should take only the cost of production at the poorest source worked or the greatest cost of production profitably applied, as the cost of production in question. This may be well enough in seeking the cause (or rather a concomitant condition) of relative values (confined to some goods), but hardly in the case before us. Rather the average cost of production would be better. But better still: the people who consume an article are not so much interested in the cost of production of it to the comparatively few persons who produce it, as they are in the cost of it to themselves. That is, people in general are not so much interested in the cost of production of an article as they are in its cost of acquisition. Or if it be ob-

^{*}Cf. Malthus, Essay on population, p. 378, and Newcomb, Principles, p. 212.

jected that the producers, though fewer, are proportionately more interested, so that to them the products are as important as to the consumers, it may be replied that this would be true in a state in which all are producers, but where some are idle occupants of accumulated capital, it remains true that the interest in production of the consumers is different from that of the producers. Thus the cost of a product has two sides: the labor cost of its production, and the cost of its acquisition, which, though ultimately a labor cost, is not so to everybody. For their services, or for the products of their labor, people generally get money, and for money the commodity which they and others consume. How much labor people on the average must expend to get the money with which they and others get the commodity, is the cost of acquisition of the And directly in the case of money, the commodity. average quantity of labor they expend to get a given sum of money is the cost of acquisition of money.

§5. This brings us back to the wages or earnings standard. But the cost standard (of cost-value) may be made to differ from the earnings standard (of esteem-value) in the following ways. The cost standard is the cost in labor measured by a given amount of time—so many hours of toil—needed on the average to get an article for consumption, or money for spending. The wages standard is the relation to the day's labor required to get the thing, without regard to the varying number of hours usually applied to labor during the day. For not only the individual, as he prospers, devotes less time to work and more to recreation, but also the race, as it advances in the arts of production, takes the benefit from such improvement partly in

greater produce and partly in greater repose. Now, in the course of such progress, with increasing production and with shortening of the day's application to labor. if money were to remain stable in cost-value, it would rise in wages-value, and if it were to remain stable in wages-value, it would fall in cost-value. This wagesvalue may be esteem-value. In this way Professor Clark's emendation of the labor standard deserves re-The cost standard is the wages standard, or the earnings standard, with wages, or earnings, measured by the hour. The wages standard proper or the earnings standard proper, is with wages, or earnings, measured by the day. But this is not all. wages standard taken as a cost standard, only the wages and earnings of actual producers must be considered: but when the wages standard is taken as a standard of esteem-value, the zero wages of the unemployed, as already remarked, must be included. Moreover, as above indicated, esteem-value seems to be a matter not only of earnings but also of incomes, that is, consideration must also be taken of those who live idly on rent and interest, or of the extent to which people live on these. And now with money stable in esteem-value, it would seem that the average of all incomes should remain constant (which would permit of all earnings rising or falling if counterbalanced by opposite variations of derivative incomes). But with money stable in cost-value, it would seem that the average incomes only of the producers (their net earnings) should remain constant. In this way of measuring things, the esteem-value of money might fall more than its cost-value, in case the non-producers get a greater share of the benefits of progress, or less if they

NATURE OF THE STANDARDS get a smaller share. It is its esteem value to the whole COMMUNITY that Would so exceed, although to a less degree than to the non-producers; not its esteem-value to the producers, which, in this conception, could vary only with its cost-value. As yet these ideas can be Value should be abandoned altogether. It may be swallowed up in the idea of esteem value. The idea of esteem-value still needs development, especially as regards its measurement through the course of time. \$ 6. These standards diverge and become distinct only when there is advance or retrogression in material civilization. Were average costs of production and civilization.

average wealth stable over a period of time, in this period of time the commodity standard and the labor standard in each of its forms would coincide, and money might be stable both in exchange value and in Cost-value or esteem-value, or it might vary in all these values alike. * With average costs of production remaining unchanged, there may be increase or decrease in average wealth according as a larger or smaller proportion of the population are actively engaged in production; in which case the two labor standards may Separate, and money, if it remains stable in cost-value, and then presumably also in exchange-value, may fall or rise in esteem-value, or if it varies in cost-value and exchange in cost-value and or rise in esteem value, or if it varies in cost-value and value. Such about may differently vary in esteem-Value. Such changes as the last take place mostly in careful. short periods, owing to waxing or waning of credit

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other, these two conceptions, though the correctionally productive one time with the correction of the another, these two conceptions, though theoretically different, would be same. Response to results practically the same. Response to the control of the cont another, these two conceptions, though theoretically different, would p. 10.

But when, "etc. J. A. Smith, o

conditions. Over periods of many years with improvements in industry, transportation, and facilities of commerce, money cannot be stable both in exchange-value and in the other kinds of value. If it is stable in exchange-value, it will fall in the other kinds along with commodities in general: and if it is stable in the other kinds while commodities fall, it will rise in exchange-value. And conversely in case of retrogression. Of course, progress is desired, and so it is desirable. not that money should be stable in both or in all the kinds of value, but that it should be stable only in one kind.—and which this one kind should be, is our Such progress, luckily, is taking place at the present day: and it is only on the supposition of the further continuance of this progress that our problem is of interest.

The more rapid the progress, the more apparent the problem. Herein, and in two other circumstances, may be found the explanation of the fact that the problem was not noticed until the nineteenth century, and that it was noticed then. Although there has been almost constant progress for at least four or five centuries, never before has the progress been so rapid as it has been during the past hundred and fifty years. Therefore the divergence between the different kinds of value of money has been greater in these years than ever before, and consequently the existence of the problem more conspicuous. Also during this period the study of economic problems in general began to attract closer attention, and of late has become more scientific, with demand for stricter accuracy in the measurement of facts. Hence greater theoretical need has been felt of settling the problem. Finally, it is in this period that

there have been severer shortenings in the supply of money, with noticeable falls in general prices. Previously, people were satisfied so long as money did not depreciate in exchange-value - and they did not even much mind such depreciation. During the last century they were twice confronted with long periods of appreciation of money in exchange-value, which a large portion of the community did not like and to which they loudly objected, while other classes, numerically in a minority, but superior in dialectical skill in defending their own interests, approved, and sought defense in alleging that money was stable in "real value," meaning some kind of labor-value, and so set this up as a rival standard to the old commodity standard. Only then the controversy over the problem began in earnest. It is curious, however, that even during that century the existence of the problem has also, by intelligent men, been constantly ignored.*

In such periods of progress the different kinds of value of money, graphically viewed, go in diverging lines. Many economists show contentment so long as

[•] We have already tarried over-long with the confusion that has reigned on this subject. Yet one more instance may be cited. In Agriculture and bimetallism. "A new way to pay old debts," a Cobden Club Leaflet, no. lxiii, London, March 1889, G. W. Medley wrote: "The fallacy lies in reckoning the pound sterling in 1873, and in 1889, as the same thing. Physically speaking, this is true, for the coin is the same weight and fineness in gold. Economically speaking, it is not the same thing, for a pound sterling in 1889 represents a greater quantity of human effort than it did in 1873. To obtain a round sterling in 1873 a quantity in other commodities had to be given for it, which may be represented by the figure 100. In 1889, owing to the fall in prices, the quantity to be given in exchange is, say, 145," etc., p. 3. Here no cognizance is shown of the fact that the labor standard and the commodity standard had parted company between 1873 and 1889, and of the consequent need of making a choice between them.

any one of these lines is horizontal, or so long as the horizontal line is contained within the bunch. as we have seen, have desired the horizontal line to be midway between the extremes. Discontent is then shown only if all the values of money either rise or fall.—although less discontent is usually manifested if they all fall, including its exchange-value, which, in a state of progress, is the last to fall, than if they all rise, including its esteem-value, which in this case is the last to rise. But such is a very unprecise attitude to take on the subject. To defend a monetary system so long as some one of the kinds of value of money is stable, or so long as the variation of one of its kinds is offset by an opposite variation of another, is really to pass from approval of stability of money in one kind of value to approval of its stability in another kind of value, and is to have no settled opinion on the subject at all. Such an attitude may be better than to be utterly indifferent as to how the values of money vary. But it is only one remove from such indifference, and does not reach the precision demanded by science.

§7. To aid in forming a decision between the different standards, it may be well here, before passing on to the arguments for them, briefly to review the prominent features wherein, during periods of progress or of decay, they differ. This may be best done in a parallel presentment of money behaving according to each of them, as follows:—

COMMODITY STANDARD	COST STANDARD	INCOME STANDARD
Money stable in exchange-value.	Money stable in cost- value.	Money stable in esteem-value.
Money a constant standard of pur-	Money a constant standard of produ-	Money a constant standard of produ-

chasing power (or of producing power measured by efficiency).

Money such that the money-value is constant of a constant total quantity of commodities,

any increase or decrease in the total output, howsoever brought about, appearing as increase or decrease of the total money-value.

Money such that the prices of commodities, while varying amongst themselves according to their costs of production or to their supply and demand (or whatever else be the cause of the variations of their values). relative shall vary in such wise as to maintain constant the general level of prices. so that a change in the price of a commodity marks its cing power measured by the hour.

Money such that the money-value is constant of the total quantity of commodities produced in a given number of hours of actual work,

which quantity varies as there are improvements or failures, such variation appearing (it is alleged) in the increase ordecrease of the purchasing power of money.

Money such that the prices of commodities shall vary according to their costs of production in labor measured by the hour,

so that a change in the price of a commodity marks its cing power measured by the day (with variable hours of work and variable employment).

Money such that the money-value is constant of the total quantity of commodities produced in the day's work (of variable hours, and also with variable numbers of employed workers out of a given population),

which quantity varies as there are improvements or failures, with increase or decrease of employment relatively to the population, such variation appearing in the increase or decrease of the purchasing power of money.

Money such that the prices of commodities shall vary according to the estimation in which they are held, according to their final utility, or according to their costs of production measured by the day (with variable hours of work, and variable amount of employment),

so that a change in the price of a commodity marks its variation in general exchange-value, while the general level of earnings or incomes varies with increase or decrease of average real wealth.

variation in costvalue, while the general level of net earnings, measured in hours of actual work, is constant, increase or decrease of the average real wealth of the producers appearing in the increase or decrease of the purchasing power of such earnings.

variation in esteemvalue. while the general level of gross earnings, measured in days of work (as above), or of incomes, is constant, increase or decrease of the average real wealth of the whole community appearing in the increase or decrease of the purchasing power of such incomes.

CHAPTER II

NATURE OF THE ARGUMENTS FOR THE STANDARDS

§1. In arguing between the standards we should be careful to refrain from adopting one kind of value as the only true or real value and then concluding that money ought to be stable in this kind of value. At the present day many economists, especially in Austria, are devoting attention to elaborating the conception of esteem-value, and the tendency shows itself among them to view this kind of value as the only value. They may be right in substituting this conception for, and ousting, the conception of cost-value, because the conception of cost-value seems to have had its origin in a mistaken theory of relative values. But however much the conception of esteem-value may substitute itself for



^{*}As a matter of fact, not all prices will do so, and herein lies one of the defects of the cost standard.

the conception of cost-value, it cannot do away with the conception of general exchange-value. The economists, therefore, who commendably immerse themselves in the study of esteem-value, commit a paralogism if, after obtaining some success in developing the conception of a stable esteem-value, they thereupon immediately conclude that money ought to possess stability of esteem-Their argument proceeds somewhat in this fashion: Money ought to be stable in value: value is esteem-value: ergo money ought to be stable in esteem-Here the major premiss, the old dictum common to almost all economists, is vague. The verv economists who have established it have, some of them. conceived of value as esteem-value (and even cost-value), and some - and the greater number as exchange-value; and still others have conceived of it confusedly as either or as both. The old doctrine. therefore, is unserviceable as a major premiss, since it is ambiguous. The argument reduces to this: Money ought to be stable in some kind of value; the kind of value in question is esteem-value; ergo money ought to be stable in esteem-value. But here the conclusion is really not reached as the result of an argument, since it is entirely contained in the minor premiss, which asserts that esteem-value is the kind of value in which money ought to be stable. Therefore argument is needed to establish this minor premiss; or rather, argument is needed to establish the desired conclusion. Esteemvalue may be a very important kind of value; but it cannot possibly be shown to be the only kind, nor can exchange-value be argued out of existence. And there may be importance in our being able to measure stability or variation in esteem-value; but this does not show.

and nothing can show, the unimportance of our being able to measure stability or variation in exchange-value. And it may be that money ought to be stable in esteemvalue rather than in exchange-value, when these diverge: but before we adopt this opinion we need good reason for holding that money ought to be stable in the one rather than in the other kind of value. kinds of value are distinct competitors, and the contest between them is not a logomachy: it cannot be decided by saving the term "value" means only esteem-value. since it does not, nor by saving it properly means only esteem-value, since the very question at issue is as to whether it properly means esteem-value in this connection. And even if the decision be reached that the term "value" ought in the future to be used only in the sense of esteem-value, and that the term "exchangevalue" should be discarded and in its place be used the term "purchasing power," so as to prevent this idea being subsumed under the concept of value, the question would still remain, but merely altered into the new form, as to whether money ought to be stable in "value" in this restricted sense, er whether it ought to be stable in the eliminated sense of "purchasing power,"—whether it is a measure and standard of "value" or of "purchasing power." Of course, in this form the old dictum about the desirability of money being stable in "value" can have no weight in deciding for money being stable in "value" in the now-to-be-adopted sense of esteemvalue, since the old use of the term "value" covered the now-to-be-rejected sense of purchasing power. Sophistry would be employed if advantage were taken of this alteration of phraseology. But the alteration of phraseology is itself to be deprecated. Purchasing

power is a kind of value, and in popular parlance always will be identified with "value."

§2. In earlier days this form of argumentation was more direct. The procedure was to assert labor-value in one of its varieties to be "real value," and consequently to imply that money ought, of course, to be stable in "real value," that is, in some labor-value. Great reliance was placed upon the use of the epithet "real." It may be well, then, to pause a moment to consider the significance of this little epithet.

The epithet "real" is merely intensive. It means either that among several correct ways of looking at a thing the one to which it refers is the most important. or that among several possible ways of interpreting an idea, all but one being incorrect, the one to which it refers is the correct, proper, or true one. In the latter case the accepted meaning of the term to which it may be prefixed is the same whether it is prefixed or dropped. Now. in economics there are several terms susceptible of different aspects or interpretations, to which terms therefore the need has been felt of sometimes prefixing the epithet "real" to draw attention to the fact that the most important or the only correct way of viewing them is being employed. Beside "value." these terms are "cost," "price," "wages," "earnings," "income," "wealth." etc. In each there is a similar threefold manner of interpreting their meaning. They may be supposed to refer to labor, to money, or to commodities in general; but the proper way of using them is not the same in all. Thus it is evident that the term "cost," at least in economics, ought to refer to expenditure of labor. It is true that in mercantile affairs people's attention is centered upon the money they give up

(without noticing its derivation) in the acquisition of the things they later expect to sell with profit, and in mercantile affairs the term refers always to money-costs. But economics takes a wider view, and looks to the ultimate thing which is given up by mankind at large in the acquisition of the things they consume; and this is labor: so that in economics the only correct meaning of the term is labor-cost. The proper use of the term "price." however, has reference in all cases merely to money-prices, since to refer by it to labor is to identify it with "cost." and to refer by it to any other commodity is to identify it with "particular exchange-On the other hand, the proper meaning of "wages," or "earnings," can only refer to commodities in general. Wages cannot be measured by labor: for that would be measuring it by other wages. labor of one man will command more of the labor of another, the labor of the latter will command less of the labor of the former - what the one gains, the other loses. Just as the exchange-values of commodities cannot all rise or all fall, so the wages of labor measured in labor-labor-wages - cannot all rise or all fall. be sure, we might measure whether the wages (or earnings) of one man or class have risen or fallen by comparison with the wages (or earnings) of all men, as we measure whether the exchange-value of one commodity or class of commodities, or of money, has risen or fallen by comparison with all commodities. But it happens that in the case of wages we are not interested so much in the measurement of some wages relatively to all, as in the measurement of all wages (or earnings) relatively to something else. And the wages (or earnings) of all men can rise or fall, or vary, only in relation to money

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But with their variation in money in purchasing power (not over lahor). We are interested only if we know the would bring purchasing power the stability of what has inst been variation of money in purchasing power (not over labor, what has just been over labor, wariation of which would bring us back to what has just money, without such additional rejected, but)
wages or over commodities.
wages, is regarded money, without such additional
or esnecially wages or earnings in knowledge, is regarded money, without such additional if it be known that there knowledge, is regarded merely as nominal: or especially only in money, and not in commodities when they it is regarded as merely nominal if it be known that we properly refer to in wages or earning that they vary only in money, and not in the properly refer to in wages or earnings. Thus the necessaries and and what we property reter to it wages or earnings—and commodities and consuch is the popular usage—Is the necessaries and conmoney-earnings enable the maniniante veniences of life, or in general commodities, which is animal is animal money-wages or money-earnings enable the extension of purchase. Further, "income," is sonly an the part of the extension of derived from wages or earnings to include what is nroner nitimate meaning mark he derived from capital vithout labor on the part of the washing must be and towashing mast be recipient.
the same as that of proper ultimate meaning must be extension of income to include the the same as that or wages or earnings.

anital itself whence with of income And weather to include the labor all is only capital a further extension of income is derived; and consequently its meaning must capital itself whence income itself whence, also be the same. And, indeed, we so and it to be in income is derived; and popular usage. And, indeed, we so find an in economies. It to be in populations emails divided bepopular usage, as well as in tween producers and non-producers equally divided becountries with tween producers and populations regarded as equally rich, if wealth referred to be command tween producers and regarded as equally rich, if wealth referred to command admit that two snah countries regarded as equally rich, it wealth referred to command according to the moduletiveover labor; but we all admit that the labor in wealth, according the people at large with may differ much in wealth according to the most general sense of this torn). ness of its labor in providing the people at large with sense of this term). commodities (III the most general sensitives and in Even Senior, we have seen, did not sensitive, but command seen, did not sensitive only that the same arous of their constraint the same arous of their constraint is the same of their wealth to the wealth of the wealth of

Now, all these meanings just distinguished are the real meanings of the terms. Therefore "real cost" must mean, in economics, labor-cost (and even in mercantile affairs, where "cost" means money-cost, "real cost" ought still to be used only in the sense of labor-cost); and "real price" means money-price; and "real wages," "real earnings," "real income," "real wealth," mean commodity-wages, commodity-earnings, commodity-income, commodity-wealth.*

But how about the phrase "real value"? Here we must notice a difference, because value is a concept containing several kinds or species. The epithet "real" cannot properly be used to apply to one kind out of several kinds, but only, as above explained, to one way of conceiving of a thing out of many possible ways, that is, to the one right way or to the one most important way, with rejection of the wrong ways, or of the less important ways. But among species there is no distinction between right and wrong, since they are all equally true species; and as for a difference in their importance, this is not as to the importance of our using the term in one or another sense, but as to the importance of the things denoted by the several species of the concept, which may be different for different purposes. each one of which must be separately examined, since each species has a definite place that is not to be ignored. Therefore we cannot rightly make use of any such phrase as "real value." applying it to one of the

^{*}Similarly "real interest" must mean commodity-interest (although in ordinary transactions "interest" means only money-interest); and "real capital" must mean commodity-capital (extended to all material things; for although capital may be "accumulated labor," the accumulation is in material things). But these meanings are not insisted upon here, in order not to prejudge an argument later to be examined.

kinds of value alone. Rather we can have as many "real values" as are kinds of value. Thus "real cost-value" can only be cost-value measured in (labor) cost of production. "Real esteem-value" can only be the true conception of esteem-value out of several conceptions not yet clarified. And "real exchange-value" is merely general exchange-value, in distinction from particular exchange-values. And now, of course, if money should be stable in cost-value, it should be stable in "real cost-value"; if in esteem-value, in "real esteem-value"; if in exchange-value, in "real exchange-value." Evidently no help can be derived from the proper use of these phrases in our problem of deciding whether money should be stable in cost-value, in esteem-value, or in exchange-value.

§ 3. In this connection also a word must be repeated in deprecation of the argument from a theory of valr to the theory of the standard. In spite of the clear di tinction between these two things, long ago pointed by Malthus and by J. S. Mill, the transition from one to the other is frequently made. Only recent' has been said that "the labor standard of deferred ments is a logical consequence of the labor there value."* The labor standard is much rather an cal consequence of the labor theory of value. whether the labor standard be right or wrong purpose assigned, its rightness or wrongness purpose is not logically inferred from the corre incorrectness of the labor theory of value, wh do with another question. And also recently tion has been brought against the commodithat "it involves a theory of value neve

[•] Fetter, op. cit. p. 58.

enunciated and never implicitly assumed except by" its modern champions, a theory which "corresponds with neither of the two great value theories, the cost of production theory and the final utility theory."* As a matter of fact, the commodity standard involves no theory of value whatever. A theory of value is an explanation of why two or more commodities exchange as they do. It is true that the conceptions of what constitutes stability of cost-value and of esteem-value have connection with the cost-of-production theory and with the final-utility theory, because cost-value is identified with the labor required to produce or acquire commodities, and esteem-value is identified with the final utility in commodities sufficient to overcome the disutility of the labor required to produce or acquire them; wherefore each of those conceptions is involved in each of the proffered explanations of the phenomena of But when those conceptions have been framed. the adoption of either of them as vielding the proper standard of deferred payments is in no wise dependent upon the reasoning by which either of those theories was sought to be established. And the conception of stability of exchange-value is the conception of one commodity being stable in its purchasing power over other commodities through the variations of them relatively to one another and to it, without reference to the causes of the variations, or to the explanation of them, or to the theory of them, and is neither evolved from, nor involved in, any theory of them. It might, perhaps, be regarded as an inconsistency if an advocate of the cost-of-production theory of relative values should hold the esteem-value standard of deferred payments, or

^{*}Merriam, op. cit. p. 100.

if an advocate of the final-utility theory of relative values should hold the cost-value standard of deferred payments. But the exchange-value standard of deferred payments may be equally well held either by the advocate of the cost-of-production theory of relative values (witness Torrens) or by the advocate of the final-utility theory of relative values (witness Professor Walras). Indeed, if he is to have any theory about relative values, any explanation of why they are as they are, the advocate of the exchange-value standard of deferred payments must, it would seem, hold the one or the other of those two theories,—for the demand-and-supply theory is only a vaguely described form of the final-utility theory.

§4. Evidently the question of propriety, and the question of causes, are distinct. It is one of the marvels of warped ratiocination that in the recent campaign controversy about the monetary standards these two questions were constantly confounded. In that controversy the gold advocates seemed to be perfectly content if they could only explain the fall of prices by attributing it to alterations in the commodities - to their reduced costs of production and transportation, or in general to their increased quantities. Emphasis was constantly placed upon the endeavor to show that the cause of the fall of prices, lying on the side of commodities, did not lie on the side of gold; which was taken as proof that gold had not changed, hence that it had not risen in "value," although the fall of prices was evidence that gold had changed, and risen, in its purchasing power over commodities, or in "value" in this Then the constancy of gold in some unnamed "value," or value called "real," was taken as an in itself satisfactory proof of the right functioning of gold as a monetary standard. Such reasoning was thought sufficient even by many of the best of the controversialists in the gold party. And in the opposing party, but principally by the weakest among the bimetallists, this line of reasoning was so far approved that attempts were made to disprove some of its details, as about the cause being on the side of commodities, or to pooh-pooh any idea of gold being constant in "value." and it seemed to be thought sufficient merely to point to the fact of gold having risen in exchange-value, likewise treated simply as a rise in "value." Both these sets of disputants failed to see that the real question at issue between them was not yet touched upon. The two parties had no occasion to differ on the question of causes, which is another question, howsoever important, immaterial in the decision of the question in dispute. The bimetallists might concede to their opponents that gold had remained tolerably stable in one of the kinds of laborvalue—in which one the gold advocates themselves have not been particular, and neither they have carefully proved their position, nor have the bimetallists carefully For the sake of argument, then, the disproved it. pretension may be admitted. And only now does the real question at issue appear, as the very thing needed is argument to show that money ought to be stable in cost-value or esteem-value, or that it ought to be stable in exchange-value. This argument was not contained in the above line of reasoning, which therefore is inefficacious and inconclusive. And, in general, argument to prove that money ought to be stable in cost-value or esteem-value is conspicuous in the pages of the gold advocates chiefly by its absence. An occasional word

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appears now and then assuming that money ought to be so, and asserting that money ought to be stable in exchange-value only when there is no progress; or a mere drawing of the distinction between a stationary and a progressive period is treated as if it must of itself illuminate the correctness of their position. But argument proper to establish and confirm their position can be gathered only piecemeal from scattered statements, as it is hardly given in full. Yet it is only in case such argument can be successfully carried through. that there is any need of seeking to prove, or to disprove, that gold has shown itself stable in such value. On the other hand, attempts to prove that money ought to be stable in exchange-value have generally been made by the best of the bimetallists; but their attempts have frequently lacked force through omission to notice that this needs to be proved especially for periods of progress and in opposition to the doctrine of stability in costvalue or esteem-value. The only excuse for this omission is the want of form given to that doctrine by its own advocates.

§ 5. Equally illogical is it to argue from cheapening in the sense of falling labor-cost of production to cheapening in the sense of falling prices. This argument has appeared in two shapes. It is sometimes argued that with improved production the fall of prices is inevitable, and therefore it is idle to complain of it, or that to succeed in preventing a fall of prices would be to succeed in preventing improved production. This involves that money must necessarily be stable in cost-value, which, seeing that the material upon which money is generally based is a commodity, like all other commodities, subject to alteration in the cost of its pro-

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duction and in its supply, is absurd. Then it is argued that because cheapening of cost is a good thing, therefore cheapening of price is also a good thing. There is no necessary consequence here, but only a verbal quibble in associating money-cost with labor-cost. course, a good thing that all commodities should fall in cost-value. But if the prices of commodities are to fall in agreement with the falls in their cost-values, the commodity which is used as the material of money must be an exception to this general rule, and a good reason ought to be forthcoming to show why it should be such an exception. If such a reason is discovered, the desire for prices to fall with the fall in cost-values is because of this reason, and not because it is a good thing for cost-values to fall. The error in the argument is precisely that it attempts to do away with the need of the further reason by confounding a falling of prices with the cheapening of cost of production. It is exasperating to see persons who ought to know better make use of this misleading argument. The fact that so many would-be economists have of late used it, can only be explained either by their being themselves duped by the fallacy in it or by their being willing to commit the sophistry of imposing it upon others.

§ 6. As the contest between the two rival value claimants has above been shown not to be a mere logomachy, so it is not a mere matter of convenience. It is absurd for persons who have never tried seriously to measure the variations of the general exchange-value of money, or to work out the theory of the method for making such measurement, to affirm that the measurement of general exchange-value is impossible and then to argue that we should turn away from this hopeless

undertaking and seek to measure the esteem-value or the cost-value of money and desire to have money stable in such value. Especially absurd is it if in their attempt to measure either of those values, they meet with no greater success than has yet been attained in measuring general exchange-value, - and most especially so if in the attempted measurement of one of those values, to repeat, they are confronted with almost exactly similar difficulties, with addition of new ones. As a matter of fact, even the conception of stability of esteem-value has not vet been determined, and much less has the method been developed of measuring it, or even of measuring cost-value; while the conception of general exchange-value is perfectly definite, and the method of measuring it has been brought near to perfection in theory, though not yet so well applied in practice. Hence the argument of ease is rather on the side of wanting money to be stable in exchange-value. such argument is wholly unscientific. Our convenience in making the measurement has nothing to do with the question. Matters of much greater importance may determine the question, and then if the more difficult kind of value to measure be the one decided upon, nothing is left us but to buckle down to the work of measuring it and then of seeking some method of obtaining stability of money in it.

§7. It is evident, also, that in our subject little can be gained by appeal to authority. Yet, very curiously, appeal to authority is more frequently made in this subject than in almost any other in political economy. Such appeal is itself an indication of dearth of sound and sufficient independent reasoning on the subject in which it is prevalent; and similar dearth may be

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expected in the earlier authors relied upon. Now a result obtained from the preceding historical survey and systematic review is the showing that the array of authorities on all sides of the question is almost equally great. Nor are we helped by appeal to the greatest economists alone; for these, such as Adam Smith, Ricardo, J. B. Say, J. S. Mill, Roscher, Chevalier, Jevons, F. A. Walker, and others, whose greatness is manifested by the zeal they have shown for developing all problems in political economy and is founded upon the clearness and completeness with which they have elucidated and established many of its most important theorems, have precisely in our subject shown weakness of argument and confusion of ideas. Only a few have been clear and consistent, such as the early Italian economists and, among the living, Professor Walras,and all these, it is noticeable, on the side of stability of money in exchange-value. Others have been confused about the stability of money in exchange-value by admitting wages into the lists along with the prices of commodities; while those who advocate stability of money in cost-value or in esteem-value, have confusedly made use of the prices of commodities along with wages. or have mixed up wages with the labor-cost of production, or have jumped from the one to the other. In this subject political economy needs a thorough overhauling.

§8. The argument as to which kind of value money should be stable in, or as to which standard should be adopted for judging the goodness of money by, must stand on its own merits. It naturally falls into two parts. The one is by consideration of the functions of money. The other is by consideration of the good or evil which results from money functioning in the differ-

ent ways in question. The former is more theoretical and a priori; the latter, more practical and a posteriori. The former must consider, among the functions of money, especially two: its function as measure of value through the course of time, and its function as store of value through the course of time. Here also the second treatment is more practical than the first. latter must consider the question of good and evil partly by general argumentation from analysis of economic conditions in order to elicit what are probably the good or evil results of money functioning in one way or another, and partly by historical survey of different periods in various countries when and where money has functioned in one way or another. The second is a wholly empirical enquiry, necessarily imperfect because of little careful observation of experience that is past and gone and the impossibility of experimenting as we The first, again, is more theoretical, though based upon experience.

The present work is mainly analytical and suggestive and its purpose is not to carry out the argument for a of the standards. But it would be incomplete without review of the arguments themselves—of their nature and their requirements, with some indication of validity.

CHAPTER III

ARGUMENT FROM THE FUNCTIONS OF MO

§1. The argument by consideration of thof money most conveniently begins with its

the measure of value. Through its function as medium of exchange money acquires the function of measuring relative values at any given time and place. used everywhere and continuously, it further acquires the function of measuring relative values throughout space and through the course of time. The relative values it so measures are. directly, exchange-values. But they are also relative esteem-values. Consequently the immediate inference that, in the words of a controversialist, "money, through its being the medium of exchange, is the measure of exchange-value."* and therefore ought to be stable as such, though correct, is not convincing, since through that function it is equally a measure of relative esteem-values, and the need of its stability in esteem-value might almost equally well be inferred. On the other hand, another controversialist. a politician, has recently said that the late fall of prices is proper and legitimate, since it "measures man's vastly increased command over the forces of nature."† This is the sentiment we have seen also entertained by Malthus and McCulloch and others, and in one passage expressed by Professor Marshall. It means that in the opinion of these authors the measurement of cost-value or of esteem-value is of more real interest and importance than the measurement of exchange-value, and therefore it would be more convenient if money were stable in either of those values rather than in exchange-value, since it would then directly serve as the measure of the one or the other of those values. The question is properly a statistical one. For the purposes of statistics, is it more important that money should, by being

^{*} Shibley, op. cit. p. 17.

[†]McCleary, op. cit. p. 12.

stable in the one or in the other kind of value, serve as the measure of this or of that kind of value?—and of which kind of value is it more important that money should be the measure? Little examination will show that not much help for deciding our problem comes from this treatment of it, but that, if anything, the convenience inclines in favor of money being the measure of exchange-value.

That money should measure for us changes in the cost-values and in the esteem-values of commodities. means that we want to know whether we are making progress in the conquest of the material world. for this purpose the measurement of the general exchange-value of money by means of an average of the variations of prices is as necessary as a measurement of the cost-value or of the esteem-value of money. For suppose money were stable in esteem-value, and the average of wages or of earnings in general, or still more generally, of incomes, were constant (which can be learned only by examining particular variations and averaging them); then the increase in real wealth could be ascertained only by finding the increase in the purchasing power of the constant average incomes, that is, by measuring the variation of the general exchangevalue of money. Or suppose money were stable in costvalue, somehow determined, and the variation of the price of every commodity constantly reflected its variation in this value: then, indeed, to know the progress of mankind in acquiring any one commodity, we should merely have to consult its price. But in economics we are always interested to know general results, which can be obtained only by averages. To know, then, the advance of mankind in power over nature, we should

have to average the falls of prices, that is, to measure the variation of the general exchange-value of money. Yet in both these cases, the measurement of its general exchange-value is not the only measurement required in regard to money. In the former case, as above indicated, we should have to average wages, or earnings, or incomes, in order to know that they are on the average Now. instead, suppose money were stable in exchange-value, as learned by averaging prices: it is plain that we could then measure man's increase in real wealth directly by the measurement of the increase in average income. And would not this be the more desirable of the two double operations? Again, in the second of the above suppositions, it is easy to see how convenient it would be to measure man's increase in power over nature by the fall of prices, on the hypothesis of money being stable in cost-value. But it must not be forgotten that for this purpose we should have to measure the cost-value of money, by measuring the cost of production of its material, in order to know that money is stable in this way. And in order to make this measurement serviceable as a measure of the cost of acquisition of money to the mass of mankind, who are engaged in other pursuits than mining the precious metal, we should have to measure the fall in the cost of production of every commodity, to see whether the . fall of its price accurately corresponds.* But if money

^{*}As a mathematical fact, if the cost-of-production theory of value were universally true, it would be necessary to measure the variation in the cost of production either of money alone or of any one commodity (comparing that of the latter with its price) in order to calculate the variation of the cost-value of money and thence, by means of their prices, the variations of the cost-values of all commodities. But the cost-of-production theory is not, and does not pretend to be, universally

were stable in exchange-value, we could make this latter inquiry into the falls of cost in the cases of all commodities just as well as when money is stable in costvalue. No real or important advantage, therefore, is obtained for statisticians by money remaining stable in cost-value, or in esteem-value, over what would be obtained by its remaining stable in exchange-value. To be sure, if statisticians were able to show, by their investigations, that money has remained stable in either of the labor-values, this would enable us immediately to conclude from the general fall of prices, when this is examined and averaged, the increase in power over nature and advance in wealth, although, in the one case, such inference would not be accurate on account of prices not exactly corresponding with improvements in production. We might, then, learn of the increase much better by statisticians directly informing us of it. after their investigations into falls of costs of production. Again, for the ordinary man, the casual mention of a price in a historical narrative about past events would seem to convey more meaning if it expressed the exchange-value or purchasing power of the commodity (which it would do if money had remained stable in exchange-value) than if it expressed the cost-value, or the esteem-value, of the commodity (which it would do if money had remained stable in cost-value or in esteem-

true, and therefore a general measurement of the conditions in mary commodities, as described in the text, is imperative. The single measurement of the cost of production of the money-material, as recommended by Loria, may be sufficient for other purposes (as to satisfy the demand for repayments in equal cost-value) but not for the statistical purpose under consideration. The need of the wider measurement has been recognized by statisticians and economists, who have usually extended their survey of costs to as many commodities as possible.

value): for, in the former case, it would more closely mark some local or temporary peculiarity in the commodity compared with all commodities, while, in the latter case, this would be shown only if we additionally knew the then normal price. Also, with money stable in exchange-value, the mention of the income of some historical personage would indicate his command over commodities, while, if money had been stable in esteemvalue so that the general level of incomes would have been stable, such mention of a past income would merely show that it placed the recipient in the same relative position of wealth in comparison with the rest of the community as an equal income would now place its recipient.* Former stages of real wealth and our advance would thus apparently be more clearly indicated by increase of general incomes than by fall of general Still, the advance may be shown in either of the two ways, so that in this aspect of the problem it is not of much consequence in which of the kinds of value money were stable, although the balance seems to tip slightly in favor of its being stable in exchange-value.

§2. In the monetary function of storing value the aspect of the question is quite different. Here it is of vast importance to individual men, to classes of society, to society at large, whether money be stable in one or in another kind of value. In primitive states of society money is, among other things, used as an actual store of value, in hoards or treasures. In these, no current use is made of the store (except in some cases for ornament

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^{*}As a matter of fact, in past centuries, prices, instead of being higher, as were costs, were in general much lower than they are now. In statistics we do not suffer from this fact, but only from the irregularity of the exchange-value of money at different periods and in different regions, and the difficulty of tracing this irregularity.

and display), and so there is no gain from interest. more advanced societies the store is loaned to others who make use of it, and pay interest for its use, and later return the store. This operation is performed not only in renting and hiring, with which we are not concerned, but also in loans of money. In loans of money the element of real importance in the return of the principal is not so much the return of equal weight of similar material, as the return of equal value. what is this "value" the return of which is contemplated? The question of justice would seem to be secondary to this question about the nature of a monetary loan, or in general, of a contract for future delivery of money; for justice demands that that should be returned which Unfortunately, in the vast majority of is intended. monetary transactions, the parties themselves have no clear idea of what kind of value they are desiring the return of. Therefore the question of justice becomes the primary one, and converts into this form: What kind of value is it just that people in general should expect the return of, equal to that which was loaned, apart from interest, or should contract for ?*

^{*}The followers of Lowe, in advocating the making of loans with direct reference to the multiple commodity standard, virtually say that contracts ought to be made to call for payment in constant exchange-value. If contracts were so made, justice would simply demand that they should be fulfilled as accurately as possible. But contracts can also be framed with reference to the labor standard; and if such contracts were made, justice would likewise simply demand that they should be fulfilled as accurately as possible. Now, before any one recommends the making of contracts in either of these ways, a prior question exists as to which of these ways is the more just to both the parties concerned (and also as to which is the more politic, or the better for the community at large to insist upon—an aspect of the question which will be treated of later). Most of the followers of Lowe have neglected to consider

Now, money is not labor, but a material thing like It is therefore comparable, not with commodities. labor, but with commodities. When, in primitive societies, a person lays up a store, or hoard, or treasure, consisting of the very commodities he expects later to consume, he is storing power over commodities, and is judging his future wealth by the commodity standard. It may be that instead of this he stores only some special commodity, with intention of later exchanging this for what he shall desire to consume, and he may even store something which he expects - and he may choose it because he expects it—to rise in purchasing power over other commodities. But now it is plain that he is doing something else than merely storing, or laying up, for future use. He is engaging in a mercantile speculation, for gain, with possibility of loss in case the thing should disappoint his expectation. And this idea of probable gain shows that he is expecting more than a future equivalent, so that the only value that is properly stored is still the commodity-value, or exchange-value, the increment being profit. In a more advanced society it is regularly money that is stored when the idea is not to risk profit and loss: and when. instead of being hoarded, it is loaned out, the increase or gain that is supposed to be procured, as pay for its use, is the interest, while the principal is supposed to remain of equal value. This value, then, would seem properly still to be commodity-value, or exchange-Thus the nature of all storing of a material thing would seem to be that it is a store of exchangevalue: and the loan of such a store would naturally

this prior question, and so have failed to lay a solid foundation under their system.

seem to call for return in an equation other return, apart from the seeming to indicate profit or loss

§3. Is this conclusion alte: contract and the settlement the in prosperity through improved cult to show that it is. In h objection to the commodity used that it should fall in cost-value vided it does not fall more tha provided it does not fall in exch. if the hoarder could hit upon the least in the labor-values and th in exchange-value, he would conbut at the commencement, whil of his adopting a commodity tha labor-values is as great as the one that will fall less, and so h strikes the mean.* In a loan, la parties, whose interests are opt although the hoarder's place is yet, in a way, the debtor may hoarder, or storer, since in investi always seeks to keep his capital that is, he still wants it to store And now for both these parties together strike the mean; for, if modity that falls in the labor-value rate with all other commodities, a

^{*}If all commodities fell equally, and modity, the hoard would have to fall in the i to be stable in exchange-value. Of this the complain; for he has lost nothing.

change-value (or if they use money, and money behaves in this way), they may both be content; but if they hit upon an article that falls more in the labor-values than the rest, the debtor will rejoice and the creditor grieve, and reversely, if they hit upon one that falls less, the creditor will be pleased and the debtor would seem to have ground for complaint. Therefore, in a state of general progress, that is, when all, or most, commodities are falling in the labor-values, if money be made stable in these values, the use of such money in loans is the use of an article even better for the creditor and worse for the debtor than the article last considered, which fell less in these values, since money does not now fall at all in these values. Such money, then, would store value with undue favor to the creditors and with undue disfavor to the debtors. Impartiality of money both to creditors and to debtors requires that it must fall in the labor-values at the same average rate with commodities in general (and reversely, rise at the same average rate with them, in case of retrogression), that is, must be stable in exchange-value. In other words, stability of exchange-value is, in money, the only quality that can reconcile the opposing interests in a loan.

The pretension put forth in favor of the creditor does not seem to stand up against criticism. The creditor, qua creditor, we may repeat, is inactive; whereas the borrower, qua borrower, is generally a producer, the purpose of his borrowing being to employ the borrowed capital in productive enterprises. Now, the very idea that the creditor, qua creditor, should share in the advantage of progress, seems to mean that the creditor should get some of the increased value of the borrower's product—that is, that he should receive more value than

he gave, additional to the interest: else how would he benefit by the progress? And the only ground for this claim seems to be the idea that as the borrower has produced more, the creditor should get more. But this is contrary to the original idea that the contract should be paid in the same value as received. Hence the claim of the creditor to a greater return must be put on the ground that, on account of the progress, the larger quantity of commodities restored is only of the same value as the smaller quantity over which command was loaned. And for this purpose is invoked the idea of esteem-value. Now, when there is advance in the productive arts applied by the borrowers, unquestionably the esteem-value of the individual products falls in the eves of the producing borrowers, who are thereby grow-But it does not fall in the eves of the crediing richer. tors unless somehow they, too, are growing richer: which they cannot do in their capacity merely as creditors except by getting a share in the increase belonging to their debtors. Thus the claim of the creditors to repayment in equal esteem-value is a demand that the esteem-value of individual goods should be equalized between themselves and their debtors—that it should not be permitted to fall faster to their producing debtors, however active, than to themselves, however idle. It is a requisition to take away from the total esteemvalue in the hands of the debtors and to add to the total esteem-value in their own hands, in order that, by lessening the fall of individual esteem-values to the debtors and by causing a fall of them to themselves, the resultant conditions may be made even. But as the equality desired comes only after the increased repayment—only after the claim is allowed.—the claim of

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the creditors to repayment in equal esteem-value is virtually a claim to repayment in equal esteem-value to the debtors, ignoring the fact that if they were repaid in equal exchange-value, this would still be equal esteem-value to themselves qua creditors — that without the equalization desired by them there already exists an equality, not only of exchange-value but also of esteem-Their claim is, therefore, to a greater esteemvalue to themselves than what they loaned. principle of justice is, then, violated, on the part of the creditors. Still, it may be asked, is it not also violated by the debtors if they repay in equal exchange-value but in what, to them, is less esteem-value? The answer must be negative, because the borrowers are themselves the causes of the equal exchange-value becoming a less esteem-value to themselves. To give gain to creditors on account of subsequent improvements, is plainly to show them favor. But to give to debtors the gains coming from their own exertions, is not to show them favor. Favoritism does not consist in giving one the increase of one's own product. Really, a money stable in exchange-value merely leaves the increase in the hands of those who have produced it, whereas a money stable in a labor-value positively takes it, in whole or in part, from them and makes a present of it to others who have not produced it.

This answers the question: Which of the two parties to a loan deserves the increase arising from improvements? Yet some more comments may not be amiss. Justice would seem to require that profit should come either only from work, or if from speculation, then only coupled with the risk of loss. But the person who lends money, ceases not only to work with the aid

of what he could convert that n speculate with it, as he guards requiring what he deems suffic admits some risk, he insures his He thus is inactive or interest. regards the money or capital much he may work or speculate other capital. On the other l borrows money is generally on speculates with the aid of what Therefore whatever profit may a speculation, so aided, would seen borrower, as also any loss ought : And the fact that an invention r the worker, does not seem to giv to share in his greater profit, no greater profit of the speculator. such an invention may also cause too, as an undertaker of new in speculator, and runs risks, and m by the new invention. And ever self, or the introducer of an imp duction, be a creditor, it is nel creditor that he does so. In fact that is, by parting with his cu weakened his power to introduce is, therefore, not in the capacity one may deserve gain coming Also it is not in the capacity of may deserve loss coming from improvements or from the exhausupply. The former of these evi management on the part of the

latter would be a misfortune, which is one of the risks they must take into account in their speculations.

§4. But it is said that as progress cannot take place without the use of capital, therefore the lenders of capital have contributed to progress, and consequently they have a right to partake of its increased benefits. This way of putting the matter is hardly correct. lenders have indeed given opportunity for the improvements—and for their giving this opportunity they get But whether the borrowers take pay in interest. advantage of this opportunity or not, is wholly an affair of their own, and is purely accidental to the lenders. If borrowers in general do not make advance with the aid of the capital put at their disposal, it is admitted that the lenders should get back only the same exchange-value. But if the borrowers do make advance with the aid of the capital put at their disposal, what is that to the lenders? The lenders have acted in precisely the same way whether progress is made or not—they have acted in lending, and then have remained passive. They have, therefore, no more contributed to the progress, if progress has been made, than they have contributed to it, if there has been none: and they deserve no more in the former case than it is admitted they In other words, the subsequent deserve in the latter. actions of the debtors is not a concern in the loan. the debtors succeed in making the esteem-values of individual goods fall to themselves (by producing more). so much the better for them. The creditors have no right to claim that the esteem-values of the goods shall be made to fall to themselves also (by receiving more). since in the meanwhile they, qua creditors, have done nothing toward this result. Therefore the debtors are

justified in repaying their loans in equal exchange-value, although it may be less esteem-value to themselves (which merely means that they are justified in repaying more easily on account of the improvements adopted than they could have done without them, and are justified in not giving, and should not be required to give, any of their advantage to their creditors, except what may be bargained for in advance—in interest). And the creditors, qua creditors, as above said, have a right to repayment only in what is to themselves, as creditors, without intervening exertion (which can only be made in some other capacity), equal esteem-value, that is, equal exchange-value.

In the argument under consideration in the creditors' behalf, there is the confusion to which attention has already been drawn. The creditor is not treated merely as a party to a given loan, but as a member of a class of society who often do perform work and contribute to progress, and who therefore deserve to partake of its benefits — and who no doubt do partake of its benefits in other ways than by increase in the exchange-value of the repayment of their loans.* But the question before us properly is whether they ought to partake of the benefits actually upon their lendings—that is, upon their expressly putting away from themselves the power to contribute to progress by the aid which this much of their capital would give them. Take the case of some great inventive genius, like many now living, whose names immediately suggest themselves. Suppose by

^{*}There is a tendency to identify creditors alone with capitalists. But creditors are capitalists who have, pro tanto, parted with their capital. Debtors much more deserve the name, since they are the users of capital, which they have got by borrowing.

middle age such a one has, by his exertions, or by inheritance, acquired a fortune of a million dollars. Suppose he continues to make inventions, but not having occasion to use the whole of his capital, or not willing to risk it all upon a new venture, he lends out half of it at a stipulated rate of interest and employs the other half in his own work. Whatever further contribution he now makes to progress, he ought to benefit from in increased profit—that is, increased command over commodities - upon the half of his fortune he has devoted to his business. But evidently, if other men are likewise making contributions to progress, and among them his debtors, there is no reason why he should get increased profit, or increased command over commodities, from that half of his fortune, - and especially not, if his debtors happen not to be contributing to progress, or if they happen, as they may, to be suffering from the contributions made by himself and the others.

Then it is varyingly said the creditor deserves a share in the advance of prosperity because of his abstinence. His abstinence from self-indulgence, his willingness to help producers by loaning them his money, is one of the factors that enable the producers to make progress. Hence, it is urged, the creditors have earned a share in the increasing affluence. The reply is similar. The reward for abstinence is bargained for by the creditors in the interest they seek to get from loaning their money—or rather, all the advantage they can get from their position as owners of helps to production is bargained for in interest.* Hence this reward, or

[•] For even as an explanation of interest the abstinence theory is a mistake. It ignores the historical fact that before lending came into

rather gain, should be paid only in the form of interest. Now, if there is progress, and if there is prospect of continued prosperity, then, even with money stable in exchange-value, there is greater demand for capital on the part of producers, and lenders may demand and get a higher rate of interest, than when there is no progress. with stable exchange-value of money. This gain is proper, because it is bargained for, and willingly conceded by the borrowers. And if the lenders choose. they may abstain from spending this increment and may add it to their capital and thereby continuously augment its purchasing power over commodities, as it would grow of itself in case money were rising in exchange-value in cost-value or in esteem-value). (being stable although not so much, with equal abstinence, as in the latter case. Here the creditors do not earn the increase

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vogue there was hoarding-without interest. It ignores the present fact that many persons are possessed of so much wealth that they simply cannot consume (enjoy) it at once, or in a week, or in a month, or a year, or a decade, or even in a lifetime (although they might quickly give it or throw it away, squander it, which is abstinence of another kind). Abstinence from the consumption of part of their wealth is thus thrust upon them, without any merit on their part. Also, prudent people with small fortunes want to save something for their old age, or for their children, whether they can get interest or not. Thus interest is not a reward for abstinence, but it is a clear gain to the owners of capital, increasing their fortune to them and to their posterity, without labor. It is an inducement, not so much to saving, as to lending one's savings, which without it would remain as a hoard, although it may intensify the already existing desire to lay up treasure upon earth. The abstinence theory, also, if true of interest, would have to be applied to rent, since a land-owner is in the same situation as a money-owner; for, although he cannot consume his property, he can consume what he can exchange it for. Even profit would have to be explained in the same way; for he who applies capital, whether his own or borrowed, to productive purposes, abstains from present enjoyment as much as does the lender.

because of any service done by them for progress: they simply get it because the conditions are more favorable to them when there is progress, than are the conditions without progress. But to make their profit still greater than what was bargained for, to give them increase of benefit hidden in the increasing purchasing power of the money with which they are repaid, is to make the conditions unnecessarily favorable to them.

Another phase of the argument in behalf of the creditors, is to refer to the fact that many widows and orphans live on the interest of capital left them - are creditors.—and to arouse a sentiment in favor of helping them (and with them all other creditors). But to say, or to imply, that widows and orphans, though continuing in command of the same purchasing power over commodities, though still able to live as well as before, yet are injured, or do not get their due, because the money returned them may have depreciated in costvalue, or in esteem-value to society at large, that is, because other people have advanced in wealth and are acquiring money more easily, and consequently are esteeming it less, is merely to put into the heads of such widows and orphans the canker of envy—it is to give them the idea that they are injured because others are passing ahead of them, that they are injured because they are not given a share in the progress of others.* Evidently there is sense in this talk about widows and orphans being injured by "depreciation" of money only

^{*}It is also to forget that there are other widows and orphans, far more numerous, who have to work for their living, and who may, perhaps, be favored more by money being stable in exchange-value than by its rising in exchange-value and remaining stable in one or other of the labor-values. But this belongs to a later part of the discussion.

when this term refers to a fall in exchange-value or purchasing power. In the above argument there seems to be a confusion of ideas because of the same term being used in different meanings. If money depreciates in exchange-value, widows and orphans suffer. Therefore it is thought that widows and orphans suffer if money depreciates in esteem-value or cost-value. money ought to be stable in esteem-value or cost-value. and if commodities are falling in these values, because of progress in producing them, money ought not to fall with them, that is, it ought not to remain stable in exchange-value. Thus, in order to protect widows and orphans from the evil effects of money depreciating in exchange-value, the conclusion is reached that money ought to appreciate in exchange-value. Moreover, even if it were admitted that widows and orphans ought to share in the progress that may take place in the short period of their widowhood or orphanage, without their' doing anything to help themselves, or apart from any such efforts, and in proportion to their possessions, that is, as above said, that they ought to be given such a share, there is no reason apparent why this gift should be forced from their debtors instead of from anybody else, or from the whole people, or why it should be made to them in exact proportion to their ability to dispense with it. If, then, this claim be allowed, it would lead rather to the socialistic doctrine that widows and orphans ought to be pensioned by the State, which, too, would mean confiscation of the property of those who have any to begin with.

§5. Nor is the position of the commodity standard altered by asserting that labor is one of the things we buy and sell. It is true that we pay for some services,

as we pay for commodities, for purposes of consumption. And it has been said that the prices of such services should be included in the list of prices by which the exchange-value of money is measured, whenever it is practicable to do so. But the wages of laborers, the salaries of clerks, the profits of self-paid undertakers of industry—in short, earnings, and especially incomes in general—are not objects that can be stored or loaned, or as substitute for which money is stored or loaned. To say, therefore, that the repayment of a debt should put the creditor in command over the same amount of labor as he had command over when he loaned the money, seems to be talking to no purpose.

But even if this pretension of the labor standard be accepted as having force, it would seem as if it must admit of a modification - not an alteration, but a definition - that takes away all difference between the labor standard and the commodity standard. This is the objection to the labor standard, as ordinarily used. which has been advanced by Professor Nicholson and Professor Ross, and which has hardly been noticed by the advocates of that standard, perhaps because it is unanswerable. In any class of commodities, say cotton cloth, or steel, or wheat, there are many qualities of goodness. And now in the commodity standard it has always been recognized that commodities compared at the different periods must always be, not merely of the same class, but, as far as practicable, of the same quality in their class. Similarly, there are many classes of labor, according to the classes of the objects produced, or the stages of production and transportation and marketing to which the labor is applied. And in each class there are many qualities of labor. The qualities

of labor consist in its various efficiency. Now new inventions, or what in general are called improvements in production, augment the efficiency of labor, and so improve its quality. If a new invention improves the quality of cloth, the improvement in quality is to be allowed for in the commodity standard. Therefore, also, if a new invention improves the quality of labor, by increasing its efficiency, this improvement of quality would seem to require to be allowed for in the labor standard. But if such improvement in the quality of labor be allowed for in the labor standard, as the quality of the labor is judged by the quality and quantity of the product, the labor standard is judged by the commodity standard, and virtually reduces to the commodity standard. It is only by not allowing for the improvement of labor that the labor standard is distinguished from the commodity standard. This non-allowance is an imperfection in the labor standard, as distinguished from the commodity standard, which seems to deprive it of instification.

That this is so, may be illustrated by a couple of suppositional cases. The measurement of value in different places is in many respects like the measurement of value at different times, and the transference of a debt from one country to another has much analogy with the separation of the date of settling from the date of contracting. Suppose that A and B are persons residing in India, and A lends to B a sum of money worth one hundred hours of Hindo labor, and both these parties come to England: is B to repay to A a sum of money worth one hundred hours of English labor? If not, then why, if A and B lived in England in the year 900 and A lent B a sum of money worth one hundred

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hours of crude Anglo-Saxon labor, and if the heir of B still owes this debt to the heir of A in the year 1900. should the heir of B now be expected to repay the heir of A a sum of money worth one hundred hours of modern machine-aided English labor? Or if instead of hours we used days, permitting of decrease of hours of labor, though there is approach toward justice, the answer still does not seem to be affirmative. Naturally the principle of repayment is the same in a debt of a thousand years as in a debt of ten years.—and some outstanding debts are already over two hundred years old. And if any one thinks the principle of repayment suggested in the last supposition is just, he should think that the same principle ought to apply to the repayment of the debt to which the parties, instead of being removed from Alfredian England to Victorian England. are removed from British India to Great Britain. efficiency of the labor repaid may not be much more increased in the former case than in the latter—and greater or less of degree does not affect the principle. Yet advocates of the uncorrected labor standard might hesitate to apply their principle to the former case.* The reader may judge whether repayment in the product of equal amount of labor after an interval of improvement, is identical with "the exchange of work so common among our farmers in harvest and threshing time." which is used as a model by the Director of the Mint.†

^{*}In that example the difficulty for the labor-standard advocate would be still greater if we suppose only one of the parties to remove from India to England. Probably it would be allowed that neither removal can affect the terms of the contract, which call for Hindoo labor. Then both removals would not. Then why chould a removal in time affect the terms of the contract, which call for labor of the time of making the contract?

[†] In the same Report (1898) our government official advances per-

The idea here being isolated will bear the emphasis We have seen President Hadley state of repetition. that what the producing debtor borrows is "a certain amount of control over labor." whence he would deduce that repayment should be made according to the labor standard instead of the commodity standard. premiss may be conceded, without admitting the con-The repayment should be in the same amount clusion. of the same labor, yes; but not in the same amount of improved labor. A more profound examination of what passes from the creditor to the debtor, and what should therefore be returned, shows that it is not merely control over labor. Fundamentally, as said by Berkeley, it is power. But what power? In the widest significance, it is power of purchasing. If the borrower, like the lender, be merely a consumer, both parties are interested in the power of purchasing commodities: and we have at once the commodity standard. But in an industrial system the borrower of money, who does not want to consume for himself what he can purchase with it, but wants to make more with its help, is not concerned with the things themselves he can purchase with it so much as with the aid they render him. What he

haps the only reply ever made to the above argument. It is this: "The apparent advantage to the lender in receiving, by the lapse of time, a more efficient labor than he gave, would be promptly offset by the falling interest rate, and at most is a small factor when the average length of loans is considered," p. 574. The counter-reply is that the offsetting by the falling rate of interest is not complete, as is virtually admitted in the last clause, which also is an admission that the principle is wrong, alleging only that the wrongness cannot do much harm—an allegation which itself is based on error, since long loans, frequently obtained by renewals of short ones, with or without reduction of interest, are not uncommon, and since it forgets another allegation made by the author himself, that of late progress has been rapid.

is interested in, and what he is really borrowing, is power of producing.—and this, too, is what the lender is really lending, since he is the passive party and merely delivers what the borrower wants and pays for. Here. then, we have reached the fundamental thing in an industrial loan, or contract in general. Now, productive power is yielded in three ways, and its measurement is the same in each. It is yielded by land, in its fertility: by tools and machinery, in their adaptedness to ends; and by labor, in its skill or efficiency. Thus the borrower is not interested in the mere quantity of land he can purchase, but also in its fertility—and he will as lief have half as much if doubly fertile (with equal application of costs). Nor is he interested in the mere weight or size of the tools or machines he can purchase: but he will prefer to have small ones that are more aidful, than big ones that are less aidful. And similarly he is interested not in the mere number of hours (or days) of labor he can hire, but also in the strength and skill of the laborers—he will prefer to have fewer strong laborers than more weak ones, where strength is wanted, and fewer skilful ones rather than more unskilful ones. where skill is needed in managing tools or machinery. Therefore it is perfectly proper that he restore to the lender money that will purchase less land, if the land be proportionally more fertile; less machinery, if the machinery be proportionally more aidful; and less labor, if the labor be proportionally more efficient. To say that he ought to repay money that will purchase the same quantity of labor, measured by time, without regard to its efficiency, is like saying that he ought to repay money that will purchase the same quantity of land, measured by the acre, without regard to its fertility, or the same quantity of machinery, measured by weight or size, without regard to its adaptedness. Evidently there is only one measure of productive power, and that is the product. Hence the commodity standard is the standard by which the labor standard itself ought to be measured.

§6. The preceding has been directed at the claim that the creditor should be repaid in command over equal quantity of improved labor, consequently in command over the whole increment of the increased product. without sharing it with the debtor; for this we have seen to be the true intent of the labor standard. although its advocates generally urge it on the ground that the creditor ought to share the increment with the This last position, however, is really the position of the compromisers between the labor standard and the commodity standard. This intermediate position is likewise disproved by what precedes, which disproves the uncorrected labor standard in toto, and therefore also in parte. The mixture of the two standards is only a half correction of the labor standard, and therefore, though better than the out-and-out labor standard, is not so good as the commodity standard. Still, this mixture forms a new standard, a position by itself, which calls for animadversion as to why it has been advocated, and for renewal of the disproof of the false element in it.

The most elementary reason for holding the halfway position is the idea that exchange-value is purchasing power over both commodities and labor, wherefore the command over labor, represented by wages, should be included in the lists by which the exchange-value of money is measured. This is to be denied simply by

denying that we ever purchase labor. Labor never passes from the possession of the employee to the possession of the employer—it is not a good that can be delivered. Only the products of labor are delivered, or rendered; only the products of labor, material or immaterial, are paid for or purchased. Hence exchange-value has nothing to do with active labor, though it has to do with passive services—not with labor doing, but only with work done,—which latter are to be included in, as forming part of, the commodity standard, so far as practicable. The wages of labor, or the reward of labor in earnings, are another matter altogether.

Almost equally elementary is the idea that when the two standards part company we cannot choose between them, and so must allow equal force to each and stand, like Buridan's ass, undecided in their midst. This looks like mere acknowledgment of incompetence to solve the problem. And when the problem is solved by showing that the apparently opposing factors are not really so, since the one of them, on analysis, reduces to the other, it turns out to be a partial submission to false appearance.

More recondite reason has also been invoked, not merely admitting equality in opposing factors, but asserting it, and so positively requiring a compromise. The idea is entertained that constancy of exchange-value, measured by the commodity standard, is according to a "consumption standard," and as the creditor is a consumer, it may be proper for him to be paid in money so constant; but that the debtor is a producer, and so the standard for him to pay in is a "production standard," identified with a labor standard of some sort. Therefore in a state of progress, when the latter stand-

ard advances beyond the former, there is a hitch. because the creditor ought to receive according to the one standard and the debtor ought to pay according to the other. And the only way out of this difficulty is by a compromise between the two standards. Thus we have seen Dr. Adams maintain that "the consumption standard is wholly one-sided, - fairly equitable from the standpoint of the consumer or creditor, but completely unsuited to voice or express the relative ability of the debtor or producer to repay."* And we have noticed the remarkableness of this position, since it virtually asserts that in a period of progress the creditors have a right to repayment only in the same exchange-value. while the debtors have the duty of repaying them in the same labor-value (which is increased exchange-value).† If the first part of this position be correct, the whole matter is disposed of: for debtors cannot possibly have a duty to pay back more than the creditors have a right to demand. The statement is, however, in defiance of the whole claim of the labor-standard advocates, which is that creditors have a right to repayment in the same labor-value, as also that the debtors have the duty to repay in this same value, and no right to get off by repaying a smaller value (the same exchange-value), so that there is no hitch whatever, and no need of a compromise. The compromise can be required only on the ground that, while the creditors have the right claimed. the debtors have a right, which limits their duty, to

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^{*} Op. cit. pp. 11-12.

[†]Adams, indeed, views it as to the interest of the debtors to repay according to the "production standard," even in a period of progress. We cannot stop at such a slip; and if anything remains to the argument, it must be as stated in the text.

repay in the same exchange-value. But there cannot possibly be any such conflict of rights, or of a right and a duty; and the appearance of it can be brought about only by a mistake somewhere in the premisses. That the creditors have no just claim, and so no right, to repayment in anything more than the same exchange-value, we have already proved. Therefore there is perfect harmony between the rights of the two parties, or between the right of the one and the duty of the other.*

But, for the sake of completing the argument, let us examine this strange claim, never urged except by innuendo, that in a period of progress the duty of the debtor exceeds the right of the creditor, and that it can be fulfilled only by the debtor returning the same laborvalue, or paying according to his "relative ability" to produce. Here the claim is direct, that the debtor ought to return, not the same absolute productive power, but an increased productive power which bears the same relation to the productive power borrowed as the productive power in the world at large (for equal number of workers, or for equal population) at the time of repayment bears to the productive power in the world at large at the time of contracting the debt. No reason is assigned for this claim, and there seems to be in it not a particle of justice. It can be justified only on the assumption that the increased productive power is of the same value of some sort - say, the same esteem-value. But this would show that the creditor has a right to receive this same value, as well as the debtor has a duty to pay it, and so is belied by the admission that the

^{*}Which harmony remains also in a period of retrogression. Then the creditors have a right to repayment in the same exchange-value, and the debtors have the duty to repay in the same exchange-value.

ARGUMENT FROM

creditor can demand only the The argument merely reverts to about the two kinds of sameness an admission on the wrong side present position is a vague idea t debtors increases - that is, as the debts increases, - they ought to their repayment. A corollary to creditors would have a right to 1 "relative ability," or capacity, known to develop with exercise. the richer the creditors become selves, or by inheritance, or by political machinations (the means the greater grows their claim of ri ment. This is absurd: but it is the argument from the increased Moreover, this inc to produce. debtors to produce does not nece: debts, nor does it necessarily inv to pay those debts, so far as the concerned. In other words, alth loaned to inventors, yet in many the increased ability is a resultant the debt itself. When the indust he presumably invested the money: existed at the time. Since then 1 But the debtor remain inventions. the older machinery. Thus the abil the debtor borrowed is represent machinery which he could procure borrowing. There is no reason why he should repay money that greater quantity of commodities produced with the better machinery which he did not procure with the money he borrowed, but which has since come into use and into competition with him. He may, indeed, himself have since procured the better machinery, with other capital, perhaps obtained in another loan. is another matter, representing another debt. The increased ability to pay that other debt is probably discounted in that other debt: at all events, it is concerned only with that other debt, and if he gets increased profits from it there is no reason why this increase should be drawn upon by the creditor of the old debt (especially if, as is possible, the new creditor has been willing to take less interest). This is so even on the supposition that the ability to pay the old debt, as derived from that debt itself, is unimpaired (except by the ordinary deterioration, which of course is provided against from the beginning). Much more, then, should it be so if the ability to pay the old debt is actually impaired by the greater productive power that has since been brought into competition with its investment.

§7. Another argument for the intermediate position, as usually conceived, involves a total retraction of one of the positions provisionally allowed in the preceding pages. We have seen the doctrine maintained that money-incomes ought to remain stable, however much real incomes (commodity-incomes) may grow. This position is assumed on the ground that money would then be stable in "value"—which, we have seen, can only mean esteem-value. Now, of esteem-value this may be a wrong conception. It is based on the idea that a person's total possessions, or his total earnings, are always of the same esteem-value to him.

But about this there seems to be something wrong. It is perfectly evident that as a person's possessions increase, their total esteem - value to him does not increase in the same proportion. But it would seem that it does increase in some smaller degree. Thus it is not uncommon, during wars, specially to commend rich men for showing a self-sacrificing spirit: which can only be because of a generally accepted opinion that life has greater attraction for the rich than for the poor. It is true that the proportion between the rate of increase of such total esteem-value and the rate of increase of the total possessions is not determinable in the present state of economic science, and is one of the problems that still confront the scientific economist. In the absence, then, of such definite knowledge, the proportion may be taken to be half. Then there ought to be an increase of money-incomes half as fast as the increase in real incomes. This would require a fall of prices (since prices could remain stable only if the money-incomes increased as fast as the real incomes), but a fall not so great as it would be if money-incomes remained stable. We should thus have the desire for rising incomes and falling prices, which is the distinctive mark of the intermediate position. The present position, however, would no longer be a compromise between the two extremes positions, but, like Professor Clark's, it would be one of the extreme positions itself, beyond which the old extreme (of fixed money-incomes) would be left over as an excess without justification. It would no longer pretend that money should both rise in exchange-value and fall in esteem-value: it would assert that, while rising in exchange-value, money should be stable in esteem-value rightly measured.

And between it and the other extreme (of stable prices) the new intermediary position would be merely that prices should fall less and money-incomes rise more, about half and half, than is required by this new principle.

The objection to this innovation, for our purposes, is that it merely introduces a new and perhaps better measurement of the esteem-value of money, but does not add a single reason to show why debts ought to be paid in the same esteem-value, so measured, rather than in the same exchange-value. Every reason previously urged in favor of repayment in the same exchange-value and against repayment in the same esteem-value, still holds good, although the wrong contended against is diminished by the diminished departure from the commodity standard. For instance, the new position still commits the injustice, though in smaller degree, of requiring that the creditor, qua creditor, should have the esteem-value of particular things reduced, though to smaller extent, to him, without exertion on his part, whenever it is reduced to his debtors through their exertions.

§ 8. We may conclude this part of the discussion with another argument that applies against the doctrine of repaying debts in the same esteem-value, no matter what be the way in which esteem-value is to be measured. The increase of ability to produce and the increase of wealth, with the consequent fall in the esteem-value of given quantities of goods, are not confined to the race. It is the normal condition of the individual to grow in skill and in wealth, so that things normally fall in esteem-value to the individual, as he grows older. Now, if a young man borrows a hundred dollars when

his day's labor may be worth only one dollar and the few commodities he commands possess a high esteemvalue to him, if he later, before repaying the loan, develops in power and becomes rich and his day's labor is worth fifty or a hundred dollars, and the things which before had a high esteem-value to him now have a low esteem-value, and he parts with a fifty-dollar bill with as little concern as he used to feel at spending a dollar. it is certain that no advocate of money being stable in esteem-value, which means stable in esteem-value to the race at large, expects that this man should repay his debt with a sum having the same esteem-value to him as when he borrowed—not even if his creditor had developed in the same manner so that the repayment would have the same esteem-value to him as when he lent.which might require repayment in five thousand dollars. It is true that economic principles cannot be applicable to every individual case. Economic principles are only of general application, and apply to the average man. But, although this example may be extravagant, that is, much above the average, yet it is a general fact that esteem-values fall more rapidly to the individual than to Now, the average fall of esteem-values to all individuals within the race, as they grow from youth to age, admits of measurement, whether ever performed or not. So also does the average fall for the whole race. In this last we must compare the status of the average man at a particular stage of his development with the status of the average man in another generation at the same stage of his development. Here the advance may be slow, while, as regards debts between individuals. continuing over ten or twenty years or so, the advance is normally, or on the average, comparatively rapid.

might seem, then, that only public debts, or quasipublic debts, lasting over many generations, should be
repaid in sums having the same esteem-value to the
race, and that private debts should be repaid in sums
having the same esteem-value to the average individual,
according to the average rate of advance of the individual. Yet this last operation is so absurd that no
advocate of the labor standard would admit it. Then
why is not the demand for repaying long debts in sums
having the same esteem-value to the race, though not so
extreme, equally false in principle?

In the position that debts should be repaid in the same exchange-value, there is the same distinction between the individual and the race. The purchasing power of money varies differently to different individuals, and it is impossible for money to remain stable in exchange-value for all individuals. Money can be desired to remain stable in exchange-value only for all people, for the race.—that is, also, for the average indi-But now with money remaining stable in exchange-value for the race or for the average individual. the principle is the same for the repayment of short debts as for the repayment of long debts. There is no inconsistency involved in the commodity standard, as there is in the labor standard.

CHAPTER IV

ARGUMENT FROM THE RESULTS OF MONEY BEING STABLE IN THE DIFFERENT KINDS OF VALUE

§1. The argument from results concerns itself with the good and the evil which attend stability of money in exchange-value or in cost-value or esteem-value. The good and the evil resulting from the different functionings of money may manifest themselves in the distribution of wealth between the different classes of society, and in the production of wealth by and for the whole of society. In the former aspect of the subject the consideration of justice again intrudes. latter the good or the evil consists not merely in increase or in decrease of production, but, progress and retrogression being also determined by other causes, in greater or in less increase, or in less or in greater decrease. The latter results are mostly a consequence of the former, since the good or the bad distribution of the products of labor between the different classes of producers, and between the producers and the non-producers, has much effect upon the prosecution of produc-Hence the subject of distribution calls for tion. attention first. In this subject it is of importance to distinguish from the static the dynamic treatment of the question, and to pay more attention to the latter, the former being elementary and more hypothetical than real.

The advocates of money stable in either of the laborvalues and, with progress, rising in exchange-value, have assumed two distinct and opposite positions. The

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one is virtually this: that with progress, money being stable in a labor-value, but rising in exchange-value. prices falling. (1) the borrowing undertaker of industry is at all times as capable of paying his creditors the same money-interest and of repaying the money-capital. according to agreement, and so of assigning to them increase in commodity-wealth proportionate to their contribution to the progress, as he would be if no progress had occurred and money had remained stable in exchange-value: (2) he is as capable of continuing to pay his employees the same money-wages all along, and so of assigning to them increase in commodity-wealth proportionate to the increasing service rendered by them, as he would be if no progress had occurred and money had remained stable in exchange-value; and (3) his own money-profits remain as large, so that he retains for himself his share in the increase of commoditywealth proportionate to his own contribution to the progress, as would be his money-profits if no progress had occurred and money had remained stable in exchange-value. Here we have a very pretty presentation of things. It of course is not pretended that every case works out as smoothly as here stated; but it is alleged that this is the average working of industrial conditions. In such average working everything is automatic. creditors get their due; the employees get their due; the undertakers of industry, who are debtors in relation to the former and employers in relation to the latter, likewise get their due, - all by means of every monetary transaction remaining exactly the same as if there were no progress.*

^{*}Another element in distribution is rent. Rent differs from interest only by being pay for special capital loaned, while interest is pay for

This merely static position fails immediately in its first involved pretension. It says the creditors get their due,—that they get increase in real wealth in just proportion to their contribution to the progress. But we have seen that while loaned capital contributes to production, for which the lenders get pay in interest, it does not contribute to progress, which is accidental so far as it is concerned; wherefore the lenders deserve no increase if progress happens to take place. And so, if things worked in this way, the creditors would get more than their deserts. Consequently the other two classes must get less than their deserts. The whole pretty scheme collapses. But—and here is the second error—things do not work in this way, even on the average. The comparison, notice, is made between what is supposed to take place with money stable in a labor-value in a state of progress and what takes place with money stable in exchange-value in a state of no progress. Now, in a progressive period the rate of real interest is found to be higher than in a corresponding stationary period. But if the money-interest continues the same, money rising in command over commodities, the rate of real interest is not merely higher, it is a rising rate. And not only the real interest rises, but the real principal also rises, the increase of the latter being a further ad-

capital in the form of money. It resembles interest also in frequently being contracted for in fairly long terms, during which no alteration can be made (in this respect, however, also resembling some salaries). But in the very point in which it differs from interest it resembles wages, and this is a point very important for our purposes. It involves no repayment of money-principal. On account of this double resemblance, everything seems to be satisfied by treating only of the simple elements, interest and wages. At all events, little attention has, in our subject, been devoted to rent.

dition to the increase of the former. For this reason. to counteract this double increase, the money-interest is generally found to be at a lower rate with money rising in exchange-value than with money stable in exchangevalue. Here is a disturbing factor, which we must presently investigate. It should be remarked, however, that the comparison ought rather to be made between money stable in a labor-value in a state of progress and money stable in exchange-value likewise in a state of progress.* Now, in a state of progress, with money remaining stable in exchange-value, and prices on the average being at a constant level, the conditions are as follows: (1) The borrowing undertaker of industry pays his debtors the same money-interest and the same commodity-interest, according to agreement, which calls for a higher rate of money interest than if money, being stable in a labor-value, were rising in exchange-value, thus calling for a higher rate of commodity-interest likewise, at the beginning, but not so later on, since in the other case the commodity-interest rises and at a definite period overtakes and then surpasses the commodity-interest in this case, aided also in that case by the ever increasing commodity-amount of the principal. and so, in this case, he assigns no gradually growing increase in real wealth to his creditors, because they have not contributed to it, although he may be capable of doing so, but instead he does give them more, in interest, at the start, in consequence merely of the bargaining which then takes place; † (2) he is capable of

^{*}In the other comparison money was stable in the labor-values as well as in exchange-value, on the side where the supposition was of no progress; wherefore there was no proper contrast with the case of money stable in a labor-value, with progress.

[†] The reference is to loans running for more than one interest-paying

giving his employees higher and higher wages, upon their demand, which they are likely to make when they see that they are helping him to larger profits, so that it is likely he will do so, this, too, being a matter of bargaining, the bargaining going on from time to time as the progress continues; and (3) his own net profits, in money and therefore also in commodities, increase, even after he has made increase in the money-wages he pays. this increase coming out of his increasing gross profits and giving a share in that increase to his employees. while none of the increase goes to his creditors, notwithstanding that the money-interest paid them is higher than it would be if there were no progress. Thus, in this case, the two productive classes get the gradually accruing increase that comes from improving production, and divide it between themselves, in the same manner as they divide the product when there is no progress, namely, by bargaining, although, to repeat, the creditors, also by bargaining, get somewhat more than they would get if no progress were being made. but the later creditors get it at once as well as the earlier creditors, and no gradual increase comes to them as

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interval. In loans with only one payment of interest, when money rises in exchange-value, part of the commodity-interest is paid back within the payment of the principal. This being taken into consideration, the whole commodity-interest, as will be shown later, is at once somewhat higher with money rising in exchange-value than with money stable in exchange-value, although not so much so as it would be if the rate of money-interest were the same in both cases.—It may be added that the treatment in the text is only of continuous periods both in the matter of progress and in the matter of money being stable in the one value or in the other. What happens at the time when money changes from being stable in one kind of value to rising or falling in it or to being stable in another kind, is another question altogether, which has to do with the evils arising from fluctuations in the value of money, about which there is no dispute.

progress continues. Here the distribution is not automatic, as in the previous position. But, for this very reason, it is better. The previous position supposes that at the start everything is as it should be, creditors getting the right money-interest, and employees the right money-wages, leaving the right money-profits to undertakers; and it demands that these monetary conditions should remain unchanged, so as to retain unchanged the same relations between the real conditions. But the real conditions themselves may have been wrong at the start. Or they may be right at one time, and yet need to be changed at another. And the change can be brought about only by new bargaining. Better, then, is it to leave all these conditions to the bargaining of the day, at all times. There is nothing automatic about the distribution at the start. There should be nothing automatic about the distribution at any time.

§2. The other position is that the same general advance in production and the same distribution of the increasing wealth between the various classes of society take place whether money be stable in exchange-value or in esteem-value (or cost-value). The general advance shows itself, in the one case, by prices remaining constant on the average and by earnings or incomes rising; and in the other, by prices falling and by earnings or incomes remaining constant. In either case the purchasing power of the earnings or incomes, increased or not in money-amount, rises, - and in this rise in commodity-amount consists the advance in material civilization. One assertion is that this advance is the same in both cases. Another is that there are various adjustments of the rates of interest and of wages that make the ultimate distribution between debtors and creditors and between employers and employees the same in both cases. The latter is the more difficult assertion of the two, and upon it depends the former. According to the present position it is indifferent whether money remains stable in exchange-value or in esteem-value or cost-value,—and, too, whether money varies in any or all of these kinds of value, and how much, provided the adjustments are still possible and actual.

Now, to a certain extent, some advocates of money stable in a labor-value have maintained this last position. although, as is plain, it is directly contrary to the one first reviewed. And, very curiously, some of them have advanced this new position mostly of the relationship between debtors and creditors, where we shall find it to be less justifiable, and have not held it of the relationship between employers and employees, where we shall find it much more justifiable, in which relationship. with the rest, they have retained the previous position. For the advocates of money stable in a labor-value and. with progress, rising in exchange-value, are almost unanimous, when they touch upon this part of the question, in asserting that the relationship between employers and employees is different with money so rising in exchange-value from what it is with money stable in exchange-value,—and, of course, it is part of their contention that it is better in the former case than in the latter; and yet some of them try to make out that the creditors are not favored in the one case more than in the other, on account of the adjustment in the rate of interest,—and still some of them do this in spite of elsewhere demanding that creditors should receive increase from progress, and recommending the laborstandard for giving them such increase more than the

commodity standard would do. Apart from this inconsistency, however, there is no inconsistency in the other difference of attitude toward the two halves in the subject of distribution. It is not inconsistent to maintain completeness of the adjustments in the one relationship and to deny it in the other. The error we shall, in fact, find in an inversion of the true position.

In both relationships the merely static positions are worthless; and the dynamic positions are not so simple as they are represented. We must examine the conditions in detail. First comes the relationship between debtor and creditor.

§ 3. In the relationship between debtor and creditor we may begin from the side which alleges perfect adjust-This allegation is that, over long periods, whatever be the course of the value of money, if only it be steady, there is naturally an adjustment of the rate of interest which makes the condition of things between debtors and creditors the same as it would be under any other equally steady course of the value of money, provided that certain moderation be observed in the rate of divergence. Thus if the exchange-value of money be gradually rising (as it would be if money remained stable in a labor-value, while progress is steady), it is asserted that the rate of interest is lower than it would be if money were stable in exchange-value (and gradually falling in its labor-values), and that the difference in the two rates of interest, itself determined by the difference in the two courses of the exchange-value of money, is sufficiently great to place the debtor in the same position relatively to his creditor, and conversely, in either of the cases. What is here alluded to, is money-interest, and the supposition is that by a change

in the money-interest the real interest (commodityinterest) is the same in both cases. Experience does not put us in possession of data actually illustrating these suppositions, but experience does show that the rate of money-interest has been lower in periods when money was rising in exchange-value than in otherwise tolerably similar periods when it was stable or falling in exchange-value. In consequence of this fact, or in anticipation of its discovery, Professor Clark, followed by Mr. Holt and in slight references by Professors Laughlin and Hadley and the Mint Director and others.* has held that it is indifferent for debtors and creditors whether money remains stable or rises or falls in exchange-value, provided the rise or fall be slight, steady. and long-continued. The argument is wider than the limits of our subject. For it permits not only of monetary appreciation in exchange-value, but also of depreciation in exchange-value, which, in a period of progress, would be still greater depreciation in labor-value. therefore does not demand stability in labor-value any more than stability in exchange-value. But it at least negatively maintains that stability in exchange-value is no better than stability in either labor-value.

Two attacks have been aimed at this position. Given the steady course of the exchange-value of money, and let the proper rate of commodity-interest be granted,† it

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^{*} See above, pp. 22n, 133, 142, 324-5n.

[†]The rate of commodity-interest, as already remarked, is itself affected by the presence or absence of progress, as it should be higher with progress than without progress, other things being equal. But it is the position of the advocates of money stable in exchange-value that this difference should be brought about by bargaining at the commencement of a loan, not by altering the terms of the contract afterwards, or by contracting in a money which gradually yields increase after an initial

is easy in theory to calculate what the rate of moneyinterest ought to be in order to produce the alleged adjustment. Now, it has been shown, so far as this can be shown, in the present state of statistical information, by appeal to experience, that the alteration in the rate of money-interest is not so great as it mathematically ought to be in order to reëstablish the possibility of similar distribution, being really (i. e. in commodity) higher when the exchange-value of money is rising and really lower when it is falling, than when it is stable (that is, when money-interest and commodity-interest coincide). This shows that rising exchange-value of money is more favorable to creditors and falling exchange-value of money more favorable to debtors, in each case compared with the mean of stable exchangevalue of money, although the difference is not so great as it would be but for the partial adjustment which actually takes place.* Again, it has been shown, by analysis of the conditions in each case, that even if the alteration of money-interest were as great in practice as is demanded in the theory, it would not reëstablish the same economic conditions between debtors and creditors, and that rising exchange-value of money would still be more favorable to creditors and less favorable to debtors than a falling exchange-value, and therefore also, though in less degree, than stable exchange-value of

reduction in money-interest, which gives a false appearance of reduction in commodity-interest (some of the commodity interest being incorporated in the principal), as is the case with money rising in exchange-value.

^{*}This has been worked out by I. Fisher, Appreciation and interest, Publication of the American Economic Association, August 1896, pp. 58-76. It had been suspected by Wagner, Die neueste Silberkrisis und unser Münzwesen, Berlin, 1894, p. 80. Cf. also Darwin, pp. 255-6.

money, - in other words, that the theory itself is faulty. For it is shown that the similarity of conditions could be restored only by a further supposition, ignored by the makers of the theory, and not observed in practice. This is that with money rising in exchange-value the debtor, and with money falling in exchange-value the creditor, should save what they gain by the lowered or raised money-interest and add it to their capital as a new borrowing or a new investment, thus increasing from year to year the (commodity) amount of their loan or investment—a complex operation not required of either party when money is stable in exchange-value. and with difficulty executed by the party concerned when money is rising or falling in exchange-value.* These two refutations are cumulative. The last being taken first, they show that even if the adjustment in the rate of money-interest were as great as demanded by the theory, the restoration of equality of condition would not be effected in practice: that much less effectual then would be the imperfect adjustment which actually does take place. Neither of these refutations has been countermined.† But if they stand, they show that the course of the values of money, by being variously favorable to the productive and to the unproductive classes of society, must have some influence upon the advance of material civilization.

Indeed, the greater advantage which the borrowing producers possess with money stable in exchange-value

^{*}So in a paper by the present writer in the Quarterly Journal of Economics, April 1897.

[†] The first seems to be treated as so slight a difference between practice and theory as to admit of being overlooked. We have seen it so treated by the Mint Director. The second has been noticed by Holt, op. cit. p. 356n, without deigning to reply.

than with money stable in labor-value and rising in exchange-value, manifests itself in various ways. Monetary obligations, once formed, remain constant. With money of the latter kind, the producers' power to meet their obligations, in theory, on the average, also remains constant. But, as their obligations increase in commodity with their power of producing commedities. their power to meet them, on the average, according to the hypothesis, does not increase. Therefore, while they see their creditors, qua creditors, ultimately absorbing the increase of prosperity, they see themselves, qua debtors, without profit from it (except the initial one of reduced interest, which may be soon lost unless its true nature is recognized). This comparison causes discouragement in them, the active workers and directors of almost all the work done on any scale above the There is a tendency, then, to resist this meanest. unjust discrimination by attempting to keep prices from falling. Present-day teaching being against attempting to do this through purposive alteration on the money side, its accomplishment must be striven for through alterations on the commodity side. It can be effected by curtailing production. Curtailment by individuals only hurts the individuals. Measures must be taken for bringing about general curtailment. These are sought first in attempts at higher tariffs, reducing foreign competition and lessening trade both ways, that is, diminishing the total production by diminishing the total consumption in all the countries affected. Then they are sought in attempts at combination, the formation of so-called trusts, which by the exercise of a common direction can restrict production over a wide area in the same, and often in allied, branches of industry. These

operations are encouraged, if not actually advised, by those economists who talk of the fall of prices being due to overproduction, from which the plain lesson is that production should be checked. There is another tendency in the debtors who see the favoritism shown their creditors, leading in the same direction. This is the tendency to pass from the position of debtor, or undertaker of industry, to that of creditor, or mere passive onlooker.* Such is a tendency, in other words, to pass from working to idleness.† The consequence is less production — less advance of the very civilization that is so much desired. Although the rising exchange-value of money that is stable in the labor-values cannot stop the advance (for if it did. it would stop its own rising in exchange-value, and so permit resumption of progress!), yet it may retard progress. The distribution, therefore, effected by money stable in the labor-values is doubly wrong. It is wrong simply as unjust, since it discriminates between the parties to a loan; and it is

^{*}Remarkable advice to this effect was given to solicitors and attorneys by A. G. Ellis in *The appreciation of gold and its probable effects on investments*, a paper read before the Incorporated Law Society, published in London 1893 (republished 1895). In one passage he says: "If our average young gentleman cannot become an 'Official' or obtain an appointment, it is our duty to recommend him to do nothing. Idleness has charms for many, and for the gilt-edged capitalist (even though a small one) it has become profitable. This may show an unhealthy state of society, but for that we are in no way responsible," p. 20 (or p. 26).

[†]Of course the carrying out of this tendency brings about its own cure; for it increases the competition of creditors, reducing their advantage, and it diminishes the competition of producers, reducing their disadvantage. Then things proceed as before, on a new plane. But this new plane is one on which there are more creditors and fewer debtors, that is, more idlers and fewer producers.

[‡] Progress can be stopped altogether, or set backwards, only by money rising also in the labor-values.

wrong because it favors the wrong class of society, the drones, instead of the working bees. Hence also, even if money runs in the other direction and falls in exchange-value (in addition to falling in the laborvalues), this condition, though still wrong, because unjust, is not so wrong as the other, since at all events it unjustly favors the workers instead of unjustly favoring the idlers. The force of this argument is not diminished by the fact that creditors often are workers: for it always remains true that they are not workers qua creditors. Hence the argument, so frequently made nowadays, that in modern economic conditions the majority of creditors belong to the middle and lower classes of society and consequently deserve encouragement—why unjustly, can hardly be surmised.—is utterly of no avail. When a person is both creditor and laborer, the question how much he ought to be benefited in each of these capacities can be best decided by comparing men who are solely creditors with men who are solely laborers. And similarly, when a person is both creditor and debtor, the question how much he ought to be benefited in each of these capacities can be best decided by comparing men who are solely creditors (and consumers) with men who are solely debtors (and producers with the aid of their borrowed capital). The actual numbers of creditors and debtors can have nothing to do with the subject; for although these numbers may be different, the total amounts borrowed and the total amounts lent must always balance. To appeal to the mere numbers of the creditors, or to their position in the under strata of society, is mere demagogism.

The salient feature in the argument from the mutual relationship of debtor and creditor is, then, that so far

as it proves anything it proves the existence of a tendency to smaller production with money stable in labor-value than with money stable in exchange-value.* And now, as, in the former case, more of the lessened products go to the creditors, there is still less for distribution between the two classes of producers, the borrowing undertakers and their employees, which forms the next subject of discussion.

§4. In the case of distribution between employers and employees, it is plain that while money is varying in one or another kind of value, the same distribution might be effected by altering the rate of wages (and salaries). Here the adjustment is much simpler than in the previous case, both because wages are generally contracted for in shorter terms, and because wages are like interest alone, or rather like the payment of annuities, there being no complication arising from the repayment of an original principal. In the relationship between borrowers and lenders the course of the values of money affects both the values of the interest and the values of the principal, and the two run together almost inextricably. But in the relationship between employers and employees the course of the values of money affects only the wages themselves. Consequently the adjustment by means of wages may be much more complete than by means of interest. Yet even here it is possible that the rate of money-wages will not be in practice as it ought to be in order to maintain the same rate, or, with progress, the same advance in the rate, of real wages (commodity-wages), under money stable or varying in one kind of value as under money

^{*}It is significant that no attempt has ever been made to prove the converse of this.

stable or oppositely varying in another kind of value. It has generally been maintained that with money falling in exchange-value the rate of wages does not increase fast enough, giving advantage to the employers, and with money rising in exchange-value the rate of wages does not fall as fast as the level of prices, giving advantage to the employees. This position is what lends importance to the argument drawn from wages, leading to the conclusion that money ought to fall in exchangevalue and remain stable in esteem-value or cost-value. From the static standpoint we have seen the argument It becomes effective only from the to be ineffectual. dynamic standpoint. From this standpoint it can be of importance only if proof be proffered that real wages advance more rapidly with money rising in exchangevalue and stable in esteem-value or cost-value than with money stable in exchange-value and falling in the labor-In this form the argument has been very values. imperfectly worked out. On the one hand, the contrast has generally been drawn between the condition of real wages under money rising in exchange-value, without regard to its stability in other kinds of value, and their condition under money not stable but falling in exand, on the other hand, even this change-value: contrast has generally been spoilt by not eliminating disturbing influences coming from disordered states of credit, which have been allowed in the comparison on the one side much more than on the other. Recently an investigator has found reason to believe that the advance in real wages is as great in a period of money falling in exchange-value, with undisturbed credit, as in a period of money rising in exchange-value.*

^{*} F. S. Kinder. The effects of recent changes in monetary standards

A fortiori, then, the advance in real wages would be as great in a period of money stable in exchange-value. Such is the empirical argument, which in the present state of statistical investigation is most unsatisfactory. Let us, therefore, turn to the a priori argument, upon which reliance has usually been placed.

In the general argument from distribution more emphasis has been laid by the champions of monetary stability in labor-value upon the distribution between employers and employees. Indeed, as regards the distribution between debtors and creditors, they are, in the argumentation from results, frequently on the defensive, trying to make out that the conditions with money stable in labor-value approximate toward the conditions with money stable in exchange-value. But in regard to the distribution between employers and employees their attitude becomes aggressive. Here they insist that the best condition is provided by money stable in a labor-value, or at all events with money rising in exchange-value, and deny that the condition provided by money stable in exchange-value approximates to this. They do so entirely on the ground that the former conditions are more favorable than the latter to the employees, treating the interests of the employers as if undeserving of consideration. The static argument for this position is mostly confided in, although we have seen it to be worthless. arguments are sometimes provided. We have quoted two, from Mr. Forssell and our Mint Director.* one was an argument from the advantage of position

upon the distribution of wealth, Economic Studies of the American Economic Association, Dec. 1899, pp. 462-94.

^{*} See above, p. 274.

possessed by laborers in maintaining their money-wages and salaries, and thereby partaking of the benefits of material progress, if prices are falling; and the other was the similar argument that their partaking of these benefits proceeds more automatically, and with less friction, by their merely maintaining their money-wages and salaries, than by their seeking to raise them, as they needs must do if they are to benefit by progress with money stable in exchange-value.

To judge the validity of this argument we must carefully distinguish between the income standard, the earnings standard, and the wages standard proper. Under the income standard the object is merely to keep stable, on an average, all money-incomes, including rents, interests, dividends, profits, as well as salaries and wages. This comprehensive result might be obtained. and yet money-salaries and money-wages might be falling, the other classes of society appropriating more money-income, so that perhaps the salary-earners and wage-earners are being deprived of some of the benefits of progress that are due them. Similarly, under the earnings standard, from which rents and interest are excluded. Here, again, the standard might be observed, and vet money-profits might rise and money-salaries and money-wages fall, so that here, too, the employees would not be sharing in the advantages of progress in the way alleged, their employers engrossing some of their share. As for the wages standard proper, it is true that if money-wages and money-salaries were stable and if prices fell in proportion to the improvements in production, the benefits of progress would automatically go to the laborers. But there is nothing in the wages standard itself to guarantee the second con-

dition required. Nor is this condition an economic necessity. A state of things is possible in which moneysalaries and money-wages are stable, and yet moneyprofits are rising, by the employers keeping prices from falling as fast as they might, and so, again, engrossing to themselves more of the benefits of progress than is their due. At all events, such engrossing on the part of the employers is as practicable under this monetary system as under any other stable one. Then the advocate of this monetary system, guided merely by the wages standard, would have to be content with such a condition on the ground that his standard is observed. Or rather, while he could not advise the laboring classes to strike for a rise of money-wages, since this would be contrary to his principle, the advice he should have to give them would be that they ought to strive to bring about a proper fall of prices. Whether such an undertaking, on the part of employees, who have nothing to do with the conduct of business, would be easier for them to accomplish than, in a state of stable prices, to strive, and to succeed in striving, for a rise of wages. in the contracting for which they are one of the parties. is a counter-question that may well be asked of those who think it easier for laborers to get the benefits of progress by merely maintaining their money-wages than by raising them. In this position it is forgotten that if laborers maintain their wages, under the wages standard, this alone is not enough, since they must also see to it that prices fall properly. Thus in all its three divisions the labor standard, of itself, does not show whether the relations between employers and employees are healthy or unhealthy. It may be replied that neither does the commodity standard. If prices are stable, employers may still oppress their employees by taking too large a share in money-profits and assigning to them too small a share in money-wages. This is true; but the commodity standard does not pretend, like the other standards, to show to laborers that they are getting their proper share of the benefits of progress. It leaves such a question to statistical investigation, and it beguiles laborers with no false pretense, but leaves their fate in their own hands.

The main point is, however, that as regards wages there is no automatic help to just distribution provided by money stable in any of the ways under consider-As regards salaries, in the one class of government salaries, there is some advantage in money being stable in esteem-value. For the salaries of clerks, of department-heads, of judges, of soldiers, of diplomats. and of governors and presidents, ought to be stable in esteem-value with the advance of prosperity, and therefore to rise in purchasing power; but, being established by the cumbrous machinery of legislative enactment. they are rarely altered in their money amount. Hence with money stable in esteem-value, such salaries, if once proper, would remain proper without need of alteration in money amount (except for the infrequently needed re-arrangement between the kinds of employment). Yet this is but a small argument in behalf of the labor standard, since the monetary adjustment admits of being made, and indeed has been made, even by legislation; and it is easier to make this correction, and less harm comes from neglect of it, than is the case in matters where it is desirable that money should be stable in exchange-value. But as for other salaries and wages, these are obtained in short contracts and, as a

fact, are perpetually changed. There seems to be a continual contest to raise and to depress such salaries and wages, especially the latter; and there is every reason to suspect that this contest is as great, and consequently with as much friction, whatever be the behavior of money, if steady and regular. But the contest is for the real things conveyed in the money-salaries and money-wages.—it is for commodity-salaries and commodity-wages. Therefore, if money remains stable in exchange-value, or in purchasing power over commodities, the terms in which the contest is conducted are stable. Then both parties know exactly what they are gaining and losing by any change in money-salaries or money-wages. But with money stable in laborvalue, the terms of the contest are not known unless it be known how much prices on the average are changing: which is an extra matter as regards that standard. other words, money stable in exchange-value provides to both sides the best, because equal, weapons. not procuring for the laborers an advantage of position. to which they are not, by any apparent reason, entitled. it does not put them at a disadvantage by engendering the delusive idea that they are rightly partaking of the benefits of progress when perhaps they may be far from Wage-earners have at all times and in all doing so. cases to be watchful to see that they get their share of progress. The saying "Eternal vigilance is the price of liberty" is only part of a more general truth that, in this world, at least as regards material concerns, eternal vigilance is the price of getting one's due. seem, then, that a state of stable prices, which will excite wage-earners to look for higher wages when they see their employers making larger profits, is the best to

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keep them awake to their own interests. Otherwise, with confusion as to the terms of their contracts, it is much more likely that the employers, than the employees, will derive unfair advantage.

With the above small concession in favor of the labor standard, and with this slight presumption in favor of the commodity standard, employees are, in the long run, likely to get their share in progress, in comparison with their employers, as well under one steady monetary system as under another. The adjustment, in the case of salaries and wages, over against profits, is likely to be complete.* What should decide the question is the opinion as to which kind of money is most conducive to advance of general prosperity. This is necessarily connected with the opinion as to which kind of money is most conducive to advance of prosperity of the productive classes of society, with due consideration for the just rights of the idle lenders of productive capital. As affected by the monetary standard, the interests of employees are wholly bound up with the interests of employers, since they together constitute the productive The interests of these two parties may, in many matters of detail, be antagonistic; but their interests are held in common over against the creditors of the employers. Any monetary system that is prejudicial to the borrowing undertakers of industry, in undue favor of their creditors, is also prejudicial to the laborers employed by those undertakers. Laborers, so

^{*}McVey, whom we have noticed as an advocate of the single gold standard for helping wage-earners by its appreciation in exchange-value, yet says: "In the long run, whether the money be good or poor, labor is apt to secure for its service about the amount of return that, in view of other social and political conditions, it would in any case receive," op. cit. p. 4.

called, ought to distinguish between capitalists who use capital and capitalists who part with it. Creditors alone are the latter: the former are debtors, as well as the few persons who use only their own capital. The harmony of interests between labor and capital, so often insisted upon, is a harmony of interests between employed laborers and employing capitalists, among whom are the debtor capitalists but not the creditor capitalists. There is a harmony of interests also between the debtor and the creditor capitalists; but between these there is, in regard to money values, likewise an antagonism of interests, and in this antagonism laborers should side with the debtor capitalists. By siding with the creditor capitalists to the injury of the debtor capitalists, laborers cannot but hurt themselves.

§5. In this line of argumentation an element is generally neglected that would seem to call for attention. As regards the relationship between debtors and creditors it is not deemed sufficient to say merely: Money ought to be stable in exchange-value because in a state of progress such money favors debtors: or again: Money ought to be stable in a labor-value because then it favors creditors. Additional reason is demanded not only to prove whether or no such favoritism exists, but also to show which party deserves it more. In preceding pages the endeavor has been to establish that money stable in labor-value and falling in exchange-value does favor creditors, and that these do not deserve such favor; and that money stable in exchange-value does not favor either party, debtors being favored only by money falling in exchange-value, which, therefore, is at least not so bad as money rising in exchange-value, because if either of the two parties is to be favored it

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should be the producing debtors rather than the idle creditors. However this be, it is at all events admitted that the claims of the two parties to favor should be taken into consideration. And the advocates of money stable in a labor-value and rising in exchange-value make statements pretending to evince that creditors at least deserve as much favor as debtors - never claiming more. Now, in the matter before us, concerning the distribution between employers and employees, there ought to be the same deliberation upon the merits of the respective parties and upon the justness of their claims Here, however, the advocates of to special favor. money stable in a labor-value and rising in exchangevalue simply content themselves with asseverating that with such money the advantages of advancing civilization go more to the employees than to the employers. or at least, more to the employees than they would go to them if money were stable in exchange-value. the same question arises here as to whether it is right and just that the employees should get more than the employers, or whether, if indeed it is true that they get more in the one case as alleged, it is right and just that they should get this increase. To say that employees are poor and therefore deserve more favor, might be valid over against idle creditors, but is not so over against working debtors. To be sure, if it could be shown that with money stable in a labor-value and rising in exchange-value employees get the whole advantage from advancing civilization and that with money stable in exchange-value they get none, the employers getting it all, there would be no question but that the employees ought to get some of the advantage and therefore that money ought not to be stable in exchange-

value and ought to rise somewhat, though not enough to give it all to the employees, a compromise resulting But this is not the case. in the mean. The most that is pretended is that with money rising in exchangevalue employees - at least some of them - get more of the benefits of progress and the employers less than they would get with money stable in exchange-value. this is evidently not enough. The question of justice is still left over. If such argument is to be made, it is necessary for the advocates of money stable in a laborvalue and rising in exchange-value to prove that with this money employees get exactly what they are entitled to and employers not less than they deserve, and that with money stable in exchange-value employees get less and employers more than they each ought to get. these advocates do not attempt to make out. Perhaps they may say that the advocates of money stable in exchange-value ought to vindicate their position in a similar manner, by showing that with money stable in exchange-value the distribution between the two classes is exactly what it ought to be. But the advocates of money stable in this kind of value may well decline such a task. They need make no such comparison of the actual with the ideal. All they need avow is that such money favors neither of the parties at the expense of the other — that it is impartial here, as it is between debtors and creditors. They may assert, too, - for this seems to be borne out by facts.—that even if money gradually rises in exchange-value, as it does when stable in a labor-value, it does not appreciably favor the employees over against their employers, even if the employers be not borrowers, and especially then cannot do so if the employers be borrowers and are injured

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over against their creditors; as also that if money falls slightly and gradually in exchange-value, even this does not appreciably favor the employers over against their employees, and especially does not injure the employees if the borrowing employers are being favored over against their creditors.

§ 6. In concluding the subject of distribution, it deserves remark that money has not, properly speaking, any function of distributing wealth to the different classes of society. Money, besides being the medium of exchange, is a measure and a store of value: but it is not a distributor of wealth. The question of justice is, then, properly, whether money behaves rightly in its functions of measuring and storing value, and what this value ought to be which its function is to measure and to store. Upon this subject, therefore, we may theorize, and after reaching a conclusion, may want money to be such as to carry out our theory. But money is not properly an agent for the execution of anybody's theory as to what ought to be the proper distribution of the benefits of improvements between the several classes of society. A person may think, for instance, that creditors ought to share equally in such benefits with debtors, but he would hardly conclude that if a day's labor at weaving enlarges its output of cloth, the yard by which the length of cloth is measured and which is employed in contracts for future delivery, ought to grow in length half as fast as the output expands, in order to divide the improvement equally between the contracting parties. We may rest assured that it is only by being a stable measure of what it measures the ideal unit can be a handmaid of justice.

Yet it is even possible for us to hold both the doctrine that money is the measure of exchange-value and ought to be stable in exchange-value, and the doctrine that persons who retire from business or who. continuing to work, invest their savings, ought to receive some share in the advance of material civilization taking place after their retirement, and to get such increase from their investments. But certainly we ought to couple with this latter doctrine the proviso that the persons who want such increase from their investments ought to run the risks of loss that arise from the very advance of material civilization from which they are seeking to get increasing profit. Now, our modern industrial arrangements present to every investor exactly this opportunity of gain, coupled with risk of loss. Instead of loaning his capital to other persons, or buying bonds, the money-holder can, so to speak, loan his money to a legal person of which he himself forms a part, but which requires no labor from him, by buying shares or stocks of a corporation. In this way, it is dividends and selling-out and winding-up returns, and not interest and repayment of principal, that are the proper modes of distributing the gains arising from improvements — or the losses befalling from the same. To be sure, there are losses coming from loans, and so there are risks in lending money. But it is the very object of lending money to reduce the risks to a minimum; and, at least in theory, the risks on a loan are nil, while in share-taking the running of risks and uncertainty of returns is an essential feature in the investment. On the other hand, if money is to be stable in esteemvalue or cost-value, so that the gains from improvements go to the money-lender without risk, or with

minimized risk, the distinction between share - taking and money-lending ceases.

In such argument for money stable in exchangevalue, no ill-will is shown to the creditor class. sensible people could never wish to injure the creditor The status of creditor or lending capitalist is the goal toward which all workers work, and it is not to the interest of workers that this status should suffer injustice. But this status is not injured by a condition which, in good loans, without risk, assures a constant return in exchange-value. If the retired capitalist desires gain which he does not himself actively earn, the unearned increment can always be obtained from the above-mentioned stock-investments, or, too, by land speculation.—coupled, as it ought to be, with chance of unearned decrement. But it would be unjust for government, if it were the regulator of the value of money. to supply a money that should grant to idle capitalists a sure method of obtaining unearned increment without accompanying risk of unearned decrement.

As for the relationship between employer and employee, it would seem, to repeat, that the question of distribution need have little influence upon our decision. If at any time it turns out upon investigation that with money stable in exchange-value real wages are not so high, or the advance in real wages is not so great, as some of us may think proper, it would seem that some means or regulation could be devised to increase them, or to hurry their advance; so that he who holds on other grounds the proper stability of money to be in exchange-value could still hold this position while desiring, and urging means for obtaining, higher wages or a greater advance. Here, then, the instrumentality of

money as the distributor of wealth does not seem to be a factor of importance.

§ 7. The line of reasoning by which our problem may perhaps be finally settled is based upon the general principle of utility, not of any class or classes, but of the whole community—the greatest happiness of the Does the community as a whole greatest number. prosper more when, with improving production, prices fall in conformity with the improvements, or when, with improving production, prices remain stable? which of these behaviors of money conduces more to the prosperity of the whole community and thereby also more helps on the improvement of production? are questions of fact. But economics, unlike physics and chemistry, is not an experimental science. We cannot provide ourselves with two communities, or with one community at two periods, in all other respects exactly alike, and give to the one a system of money stable in esteem-value or cost-value and to the other a system of money stable in exchange-value, and then look on and see which prospers the more. Or treating economics merely as an observational science, we are not sure that we can put our finger upon two periods in which a community has experienced, for sufficient lengths of time, a money stable in the one kind of value and then a money stable in the other kinds; and much less can we affirm that in all other respects this community was subject to the same economic conditions. We can only use induction from a few facts here and a few facts there, eliminating what we otherwise know to be effects of other causes, and tracing connections between facts that are generally found together. This empirical inquiry may proceed in two different ways. The one is by analysis

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of details. The other is by surveys of general trends, so far as statistical information is procurable. The former has been slightly touched upon in the above examination of the influence of distribution. The latter cannot be entered upon in this work, and we can peer at it only from the threshold. Those who continue the pursuit should remember that in investigations of this sort the question is only of degrees. In the period, for instance, between 1850 and 1873 there was material progress with money that was not stable but falling in cost-value and esteem-value. Was that progress so great as it would have been with money stable in cost-value or esteemvalue? In the period between 1873 and 1896 there was material progress with money not stable but rising in exchange-value. Was that progress so great as it would have been with money stable in exchange-value? In proving that money ought to be stable in exchangevalue, it is not sufficient to point to the progress between 1850 and 1873 when money was nearer to stability in exchange-value than to stability in the other kinds of value. And for proving that money ought to be stable in cost-value or esteem-value, it is not sufficient to point to the progress between 1873 and 1896 when money was nearer to stability in cost-value or esteemvalue than to stability in exchange-value. Truth may be elicited rather by a comparison of the two periods. and of all other periods about which statistical information may be collected. Such investigations are the best means of settling our problem. They would require volumes by themselves.

§8. In default of such investigations, some weight of probability is derived from the existence of a common opinion upon this subject, which may be regarded

as an outgrowth of general experience. There exists a common opinion that the rising of prices is better than the falling of prices, and debate concerning this opinion and the opposite is not infrequent, and even among economists there has been, perhaps, a majority in favor of the former opinion. And all this is independent of any question about the condition of money with regard to its stability or variation in cost-value or esteem-value. Now, the existence of such opinion, or of the possibility of such debate, is very significant. Ever since the beginning of what historians call modern times, about four centuries ago, the European and American worlds have been in a state of economic progress, with enlarging command over nature, and with expanding wealth. Through all this epoch, then, there has been a general fall of cost-value and esteem-value, the fall now happening in one kind of commodity and now in another, and proceeding on the whole with very little intermis-If, then, it is the right position that money ought to be stable in one of the labor-values, prices ought to have fallen on the average almost continuously, and by now tremendously. Instead, they have not even remained constant on the average, but have risen, and during these four centuries but few periods can be pointed to when prices fell. It would seem that if that view of money were correct, there ought to have been many complaints about prices not falling. There have at times been complaints about prices rising; but these can be more than matched by complaints about the falling of prices, and it would seem that there have never been complaints about prices remaining stable.*

^{*}We have quoted Wisner's assertion that if recently prices had not fallen there would have been a greater panic than there has been. It

the contrary, we have seen that there has rather been the opinion that prices ought even to rise preferably to fall-Such an opinion is perfectly consistent with the doctrine that money ought to be stable in exchangevalue; for a deviation upon the one side of the right may be less injurious than a deviation upon the other side. And if this position be the right one, the existence of the debate is explained. But if the right position be that money ought to be stable in cost-value or esteem-value, there should have been a question whether it is better for prices to fall less or to fall more than the fall of costs would require. Such a question has never been raised, even by recent advocates of this opinion. The fact seems to be, so far as we can discover. that in the past centuries the deviations between rising and falling prices have mostly been merely on the one side of what, in this case, is the proper position, since a state of rising prices differs only in degree from a state of falling prices, unless the fall be great enough to show money not to be falling in cost-value or esteem-value: which has rarely been. Hence, on the supposition that money ought to be stable in a labor-value, the existence of the debate about the deviations around stability in exchange-value is unexplained, -and especially inexplicable is the prevalence of the opinion in favor of the greater variation from stability in the labor-values in preference to the lesser variation. Of course, the prevalence of this opinion does not in itself prove anything about the question at issue, which, in one form, is precisely as to whether this opinion is right or wrong.

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would be interesting if he should point out a period of tolerably stable prices in which anybody has imputed a panic or a crisis to that stability.

But its prevalence at least puts the burden of proof upon those economists who would have people adopt the other opinion.

CHAPTER V

CONCLUDING REMARKS

§1. The problem before us is, then, one the solution of which is imperative. Economics pretends to be a science. But economics cannot be a science so long as there continue among its most conspicuous adepts the confusion of ideas and fallaciousness of argumentation that we have been tracing. In any branch of study confusion about the fundamental idea involved is intolerable. The first essential in science is clearness of thought.

And in our science it is important that after distinguishing between the several kinds of value we should be able to measure them. Values are the quantities with which economics deals; and economics cannot be a science until it can measure the quantities with which it deals. Economists ought, therefore, not to rest until they shall have reached the clear and definite theory of what constitutes stability or variation of each of the two or more kinds of value and how each of these is to be measured, and until they shall have carried out such mensuration in practice with the greatest possible accuracy. It is remarkable that much more has been done in this line of research in connection with the measurement of exchange-value than with the measurement of the other kinds of value—and even, rather curiously,

by those who do not care about money being stable in exchange-value. It is specially incumbent upon those who want money to be stable in the other kinds of value to perfect the conception of what constitutes stability in those kinds of value, and to do something toward the practical measurement of them by elucidating the theory of their mensuration.

Independently of the attainment of such clearness of ideas and of the methods of measurement, the question should be disposed of as to which kind of value it is which through the course of time money measures and stores and in which, consequently, it ought to be stable. Settling this question is indispensable for making scientific the branch of economics which treats of money. The serving as the measure of value through the course of time, or as the standard of value, and the serving as a store of value, are two among several fundamental These functions enter into the functions of money. definition of money, and form part of its very essence. To be good money, money must behave properly in these two functions. And for the science of money to teach what is good money, it must teach which kind of value it is that money measures and stores. Then more attention may be devoted to the kind of value determined upon, than to the others.

§2. By settling a question, in any science, is, of course, meant the making the solution so simple and plain and demonstrative that there can be, and is, no disagreement further upon the subject among sensible men: wherefore anyone who continues to dispute about the matter or to say that he cannot "see" the truth of the solution, is by general consent shoved aside as incompetent. There appears in the subject before us no

inherent reason why such a settlement of the question. why such a universal agreement upon one solution, why such a natural ostracism of all dissenters, should not be To be sure, economics has the misfortune of being a moral science, in which self-interest and desire have influence upon the intellect to befog and to distort the perception of truth. But it would seem that, while these perverting influences shall always operate in the manifold outlying details into which economic inquiry may ramify, yet at the very core of the science the amount of attention which may be concentrated ought to be able to produce such agreement as may be found. in the physical sciences, in the outlying details. Here, at least, is a point at which the impartial theorizing of disinterested science might bear down and override the fallacies and sophisms of self-interest. Otherwise the case of economics is hopeless.

§ 3. It would be well also to settle the question now. For if geologists may be believed, there is a prospect of gold ceasing to appreciate in exchange-value, and even of its declining in exchange-value, for a time at least. Gold will then no longer be a stable measure of costvalue or esteem-value, if indeed it has been such. Shall those, then, who have been defending the gold standard on that score, now turn around and defend it for being a good measure of exchange-value? We have seen, in an earlier transition of the same sort, McCulloch make this very change of position, just as, contrariwise, in a later transition in the opposite direction, Jevons and others made the opposite change of position. Such turning about in a theoretical position merely for the sake of a practical preoccupation, such abandonment of principle in deference merely to a thing, or to those whose interests are bound up in that thing, is a phenomenon which could be found in no other science. It is a phenomenon little creditable to political economy, and one against the repetition of which economists ought to be on their guard. Political discussions on this subject have now come to a stand-still, and there is a breathing spell during which pure economics may have time to reach a decision.

§ 4. That the scientifically-minded and theoretical economists may overbear the interest-warped practical men, they must be united among themselves. If economics is really to be a science, it must command unanimity of opinion among its adherents, as well as do physics and chemistry and other established sciences. A science divided against itself is no science. such unanimity be procured? Only by concentration of attention, and willingness to borrow from the best sources. Economics is too wide a field for one man to do original work in the whole of it. Like other sciences. in its beginnings it could be wholly covered by individual investigators. But, with the rest, it has advanced to a stage requiring subdivision of labor. It now needs to be worked at piecemeal, by specialists devoting themselves to particular departments in it. When solid truths are discovered by these, in any one branch, it is to be expected they will be accepted by specialists in other branches, and finally by those who are not specialists at all.

With these remarks the question may be submitted to the judgment of others. It should, however, always be remembered that it is not a question to be decided by business men advocating their own interests, nor by politicians flattering the interests of those from whom they expect preferment. It is not a matter of debate particularly between bimetallists and monometallists, between inflationists and contractionists. It is not a bone of contention principally between mine owners and bankers, between employers and employees, between debtors and creditors. It is comprehensive of the interests of all these, and of their just claims. Nor is it a subject to be lightly passed upon by litterateurs inditing readable works on economics and text-books for schools and colleges. Such writers should take their doctrines from the really serious inquirers. It is, in short, a question to be settled by scientists, for the use of statesmen, who have at heart the welfare of their countrymen.





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